

Market-driven Institutions Enhancing Development

*An Assessment of the Norwegian Investment Fund for
Developing Countries (NORFUND) in
the Bugoye Hydropower Project*

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1. Introduction

This thesis focuses attention on whether public finances to the private sector can deliver public goals, explicitly development, in foreign aid interventions. I intend to do that by analyzing the Norwegian Investment Fund for Development (Norfund), a Norwegian public institution commissioned with investing public capital on firms with the objective to produce public goods. I will specifically do an evaluative case study of Norfund's co-investment with the Norwegian company TrønderEnergi in a hydropower company in Bugoye, Uganda. Through contextualizing a particular case, my goal is to assess if it is possible to attribute the creation of public goods to operations based on the market rules, like Norfund does. With this research topic, the thesis aims at reflecting upon theories about the emergent role of the state as a *competition* one, a state that aligns industrial and welfare policies, in the context of economic globalization.

Over the past decade, the Norwegian hydropower sector has experienced revitalization after several decades of stagnation. Increasing global energy demands and climate change have created a momentum for escalating the scope of renewable energies. The biggest part of this rising market is in developing countries, which need to address energy demands for enhancing their economic growth. Norwegian's firms could be a vital source of preferred expertise in clean energy technologies. The Norwegian hydropower sector has to offer a complete value chain of products and services demanded in the countries of the South. Current market trends signal that the next move for this sector is internationalization. In fact, internationalization of the clean energy industry has great value for the Norwegian economy in that dependence on the Oil & Gas sector can be dismissed. Industrialized countries, in the center of economic globalization, should aspire to diversify its national economy by offering an international portfolio of industries and services. While the foreign markets are attractive, energy improvements in developing countries require commercial investments to bear the growth the energy sectors given that poor countries lack the technical expertise and the economical resources.

Whilst the Norwegian industry was looking abroad and the countries of the South demanded such services, the Norwegian state established the Clean Energy for Development (CEfD) in 2007. It is a foreign aid program which aims at increasing access to clean energy in developing partner countries (NORAD 2007). Despite its welfare goal, CEfD can also be seen as the seek of Norway, a donor country, to obtain benefits for the domestic economy and firms through foreign aid donations. For Mr. Erik Solheim, the Norwegian Ministry of Development and the Environment, the CEfD is a program of commercial importance for both Norway and the countries of the South.

We are doubling our efforts to promote clean energy and ensure that poor countries have access to clean, renewable energy. During the next 50 years, developing countries will account for the greatest increases in energy consumption. The enhanced focus on clean energy is therefore also an important element in our efforts to combat climate change. (Solheim, Press released Ministry of Foreign Affairs 2010¹).

Through this aid program, Norway engages in 14 countries and 2 geographical locations rich in water sources. The initiative is structured in five cooperation areas but the Norwegian aid budgets for 2010 and 2011 have prioritized financial resources to one main area: public financial mechanisms (PFMs) that can attract private investors for projects in the South. Norfund is responsible for administrating the resources and for partnering with private investors. Other cooperation areas of the program, like rural electrification, energy efficiency or institutional cooperation², are managed by the traditional Norwegian Agency for Development Cooperation (NORAD).

The increased political support to PFMs, especially Norfund, is justified on the alleged success of the development fund for finding private investors ready to co-invest in developing countries. By doing this, the institution contributes in materializing the goals of the foreign aid program. Besides of the partnership with the state-owned hydropower company, Statkraft, in the subsidiary SN

¹ Ministry of Foreign Affairs. "Press Release: Stronger focus on climate change in development policy" published on 5 October 2010. Retrieved 20 February 2011.

http://www.regjeringen.no/en/dep/ud/pressemeldinger/2010/budsjett_klimaprofil.html?id=619025

² NORAD. "Clean Energy for Development". Retrieved 3 October 2010.

<http://www.NORAD.no/en/Thematic+areas/Energy/Clean+Energy>

Power, one of the most prominent examples of Norfund's accomplishments is the hydropower plant built in Bugoye, Uganda. The Bugoye hydropower plant, opened in 2009, was built in cooperation with the Norwegian company TrønderEnergi. The Bugoye plant is a great achievement for the CEfD program because the plant is the first commercial hydropower plant built by Norwegian investors in Africa³. For the Norwegian Minister of Environment and Development Mr. Erik Solheim, Bugoye is a successful contribution to improve energy access for Uganda, and to proving that public finances can mobilize private capital for foreign aid purposes. In the press release for the opening of Bugoye, he stated:

The need for clean energy in Africa is enormous. This [Bugoye] project uses Uganda's natural resources for clean energy as an alternative to the many small diesel generators that now supply much of the power in Uganda, or power from oil or coal. It is therefore an important climate measure... This could be the start of a series of new privately-financed power plants in Africa. Bugoye has been realized through a public private partnership, where the aid is used strategically to bring in private capital for investment. (Erik Solheim, Press Released⁴)

The results accomplished by Norfund in partnership with the Norwegian private actor opened doors for future energy related investments with public objectives in the developing countries. According to the Administrative Director of Norfund, Mr. Kjell Roland, Bugoye is the first project of several that the institution will be supporting in Africa⁵.

Norwegian energy-related aid can help developing countries to improve their energy, constrains. However, it can also help the firms of the donor country to penetrate new markets. Norwegian foreign aid has traditionally been aligned to altruistic and welfare goals (Tvedt 2009, Simonensen 2008). But during the

³ Bistandsaktuelt. "News: Opening of power plant in Uganda". Retrieved 5 September 2010. Own translation. <http://www.bistandsaktuelt.no/Nyheter+og+reportasjer/Arkiv+nyheter+og+reportasjer/%C3%85pnet+kraftverk+i+Uganda.136441.cms>

⁴ Norwegian Ministry of Foreign Affairs "Press released 12.10. 2009: Solheim opened power plant in Uganda" Retrieved 3 September 2010. Own translation. <http://www.regjeringen.no/nb/dep/ud/aktuelt/nyheter/2009/uganda.html?id=581504>

⁵ Teknisk ukeblad . "News 5.10.2009: Big success in Uganda. Norwegian power plant opened several months before schedule. And more plants can come" Retrieved 6 October 2010. <http://www.tu.no/energi/article225034.ece>

second half of the millennium, Norway has advanced a *global realist*⁶ aid model based on the resources and capabilities existing in the country. Therefore, the advent of a model of aid provision, aligned with the interests of the firms of a donor country, raises questions about the capabilities of Norway as aid donor to achieve both commercial and public goals.

On several occasions Norwegian civil society organizations (CSOs) have suggested that the Norwegian government should increase focus on improving the capacity of public institutions in developing countries, so that they manage their economic growth, negotiate fair agreements with energy enterprises, and increase the positive development effects of energy investments for the good of their impoverished populations (Herning 2010; Steindal and Sandanger 2008). In fact, the proposals of CSOs calls for more focus on the traditional way of providing aid: country-to-country or public actor-to-public actor (this definition also includes CSOs as a channel for providing foreign aid). Historical experience of aid provision in the energy sector through the Nordic hydropower industry has proven that the mixture of public and commercial interests have not always accomplished desired results for the benefit of the poor (Usher 1997).

Other critics to PFMs in foreign aid policy discuss the capacity of the mechanism to contribute substantially to poverty alleviation. The overall goal of Norwegian foreign aid is poverty reduction and this should be reflected in every aid program (NORAD 2006), including the energy program CEfD. A report published by, the Norwegian CSOs, ForUM and FIVH⁷ argues that pre-requisites for poverty reduction effects in energy aid are related to the existence of local infrastructure and well-functioning governmental institutions in developing countries; requirements that Norfund's interventions do not address.

... there exists an inconsistency in the Norwegian government's ambitions to realize poverty reduction aid with a special focus on Africa, and [Norfund's] economic and market oriented focus. (Steindal and Sandanger 2008:26)

⁶ *Global realism* is a concept used by the Norwegian Ministry of Foreign Affairs, Mr. Jonas Gahr Støre to describe the rationale behind Norwegian foreign policy which has a focus on strengthening Norway's economic, political and human resources (Støre 2010).

⁷ Norwegian CSOs. ForUM: Forum for Utvikling og Miljø. FIVH: Fremtiden I Våre Hender.

Thus, the question becomes if market-driven instruments are powerful and effective tools for the achievement of foreign aid's ultimate goals?

In fact, the rationale behind PFMs and Norfund is that Norway should contribute internationally in areas where the country possesses and expertise, like, in the hydropower sector. Therefore, it is not rare to see the emergence of a foreign aid program that incorporates the elements of industrial policy through pragmatic market oriented approaches inclined to favor national private sector participation in the goals of Norwegian foreign aid. Since the turn of the millennium, scholarly literature that studies the mixture of public and commercial goals in international aid interventions have proliferated (Bull and McNeil 2007, Dalberg 2009, Osborne 2000). In a national political scenario, the appearing mechanisms align elements of Norwegian domestic policy with those of foreign policy; *modus operandi* that arguably is visible in the Norwegian foreign aid through Norfund and CEfD.

1.1 Research Question

This thesis aims to contribute to the academic debate on the use of public finances to private sector in the Norwegian foreign aid governance, through contextualizing Norfund and critically assessing the outcomes of the *renomé* project in Bugoye, Uganda.

Do Norwegian public finances to the private sector promote development?

This formulation suggests that *public finances to private sector* represent the institutionalization of a governmental strategy that channels public resources to commercial actors for the accomplishment of public goods. This element of the research question gains relevance when the object of study is Norfund, a development finance institution⁸ (DFI) invested with the mission of enterprise creation with public finances (from the aid budget) in developing countries. In this thesis 'public' refers to state actors and institutions with public mandates and

⁸ A DFI is a publicly mandated bilateral institutions designed to provide long-term financing to private sector activities which have specific value-added international development –foreign aid- objectives (Dalberg 2009:8).

are invested with legitimacy; whereas ‘private’ actors embrace companies, industry-related bodies, publicly-owned companies which seek economic profit and that operate under commercial mechanisms.

Subsequently, *development* is concerned with the economic and welfare goals of the aid recipient countries, in this case Uganda. The concept of ‘development’ is rather polemical because it has several meanings according to various disciplines; but for the purpose of this thesis, I will refer to development from the significance of foreign policy. To know whether public finances to private sector promote development requires an assessment of achievements. I will study the research question on the evaluative case study of the intervention of Norfund in the Bugoye project. A case study of Bugoye intends to analyze the performance of Norfund as a development finance institution for aid provision.

1.2 Rationale for the Choice of Topic

Foreign aid, from the perspective of development assistance, is a domain focused on answering the question: what creates development and what hinders it? (Simensen 2008) Historically, a myriad of shifting paradigms are present in the international aid discourse such as economic growth, social development, poverty orientation, basic needs, sustainability, good governance, and local ownership among others (Gunnar Myrdal in Simensen 2008:100). With globalization, the aid paradigm has changed. Since the turn of the millennium, international fora have structured a multi-dimensional agenda that calls for commitments in several areas simultaneously: economic growth, governance, environment, partnerships with private sector, and human rights (World Bank, Wolfensohn 2002).

The topics have political sensibility because they mirror the decline of boundaries between national and global politics, and produce a dynamic between interests at both levels. Further, they advance the role of private actors in development through mechanisms that exploit the potential of companies to

deliver trickledown-effects⁹ in aid interventions. The raising paradigm informs national policy formation and opens opportunities to explore new ways of delivering aid assistance. In Norway, the emerging paradigm has given rise to, what I denominate, *market-driven institutions*¹⁰; they are publicly mandated institutions that combine both public and commercial interests and engage private actors in public tasks.

I argue that Norfund is an example of these emerging aid mechanisms due to its mission and its task as a PFM for the energy aid program. Indeed, Norfund is a late comer compared with its European counterparts¹¹. Despite of its young age, the fund is the largest among Nordic DFIs. During the last five years, the Norwegian fund has gained popularity among political circles; however, it has been argued that its approaches and achievements are little understood by the public stakeholders and policy makers (Dalberg 2009:1). Some see DFIs as beneficial for development (Dalberg 2009; Musasike 2004; Hoffmann 1998); others argue that aggregated economic growth does not necessarily transmit benefits to the poor (Steele et al 2008; Steindal and Sandanger 2008; Bracking and Ganho 2011; Herning 2010). Better understanding of Norfund's accomplishments is beneficial for policy making, governance models and for the ultimate goal of aid- serving developing countries.

1.2.1 Rationale for the Choice of Case

I sustain that Norfund, like other aid assistance agencies, aims at achieving foreign aid's goals; but given that Norfund's operational mode differs substantially from typical aid agencies its effects are little understood.

Enlighten knowledge about Norfund can be done through considering the actions and results of the fund from its own operational terms for three reasons. First,

⁹ Trickle-down-effects are a concept that refers to the spill-overs that company produce in local communities where they operate. Examples: job creation, improving supply chains and infrastructure, by educating the work force and by bringing products to markets (Welle-Strand et al. 2009:29)

¹⁰ Colin Leys (2001) uses the term *market-driven* to describe emergent political practices that combine traditional institutional features with market-based procedures and reasoning. This mixture of public and private roles, I argue, advances the emergence of market-driven political institutions which enhances this aid model.

¹¹ Examples of European DFIs are: CDC, United Kingdom; CODIFES, Spain; DEG, Germany; FINNFUND, Finland; FMO, Netherlands; IFU-IØ, Denmark. For details see: EDFI "Members" Retrieved 3 December 2010: <http://www.edfi.be/members.html>

Norfund allocates economic resources into projects or enterprises that generate profits and strengthen local private sector progress in developing countries. Second, Norfund co-invests with market actors, such as companies and enterprises. Or it can function as PFMs for another aid program. This leads to the use of private finances in aid-related projects, or the use of public funds in subsidizing private activities or specific companies. Third, DFIs are managed with a business-related focus, in this case, as an investment fund.

Norfund in Bugoye

As a new partner for private actors and foreign aid, the study of Norfund's intervention in the Bugoye project provides an opportunity to identify the interactions of the fund with public and private actors, goals and results; and how they are mirrored in Norfund's approaches. The investment of Norfund in Bugoye was selected given that the power plant has had large news coverage (Annex 1). In Norway, the results of Bugoye are presented as successful. It is said to be a reputational project for Norwegian hydropower companies which have the ability of building a commercial hydropower plant in Africa on time and within budget. After the opening of the plant, the private co-investor on the Bugoye company, TrønderEnergi, has been introduced as an example of success of a relatively small regional company going international for the first time. Norwegian agencies for export promotion have highlighted the success of the company as an example to follow. The acclaimed success of TrønderEnergi, in my view, could not have been possible without the advices and financial support of Norfund. Something that deserves attention in the search for the answer on whether Norfund can deliver public goals as well.

1.3 Thesis Structure

In the first chapter I have presented the research question, my explanation for the choice of this case, and a contextual background for this research study. In chapter two, I propose a theoretical framework that draws from theory formation in political science and in some instances within international relations. Chapter three is concerned with the methodological choices, including data collection

strategies, the assessment method to evaluate the impact of the aid intervention in Bugoye, and research considerations.

Empirical findings, together with their contextualization are presented in the chapters four, five, and six. In chapter four, I develop on the emergent Norwegian foreign aid. Subsequently, I put Norfund into context as a PFM for the CEfD and its relation with the Norwegian commercial interests in the hydropower sector. The fifth chapter gives detailed attention to Norfund's mission, strategy, and operations. The sixth chapter presents Norfund's intervention in the realization of the Bugoye hydropower project. This chapter presents the background of the intervention, the private partner and the structure of the public private co-operation.

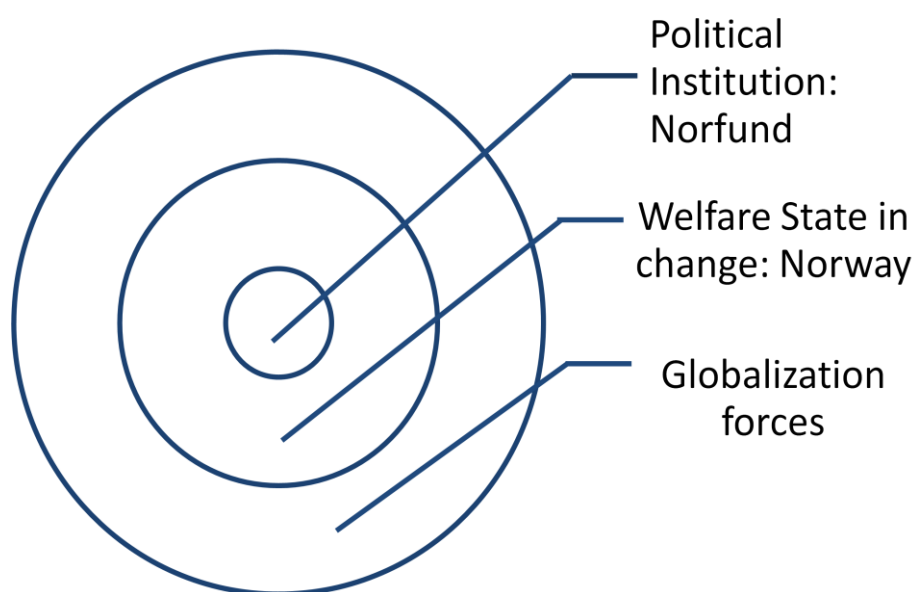
Chapters seven and eight should be seen as analytical chapters. In chapter seven I provide an assessment of the *equity* results provided by the aid intervention and discuss their significance for the overall Norwegian development policy and stakeholders. Chapter eight serves to discuss the implications of the Bugoye intervention on Norwegian commercial and *efficiency* goals. Moreover, it proposes an approach to politically understand the role of Norfund in promoting development. Finally, the chapter closes with the presentation on how the findings serve to explain a competitive Norwegian state. The final chapter is dedicated to offer some closing reflections and conclusions.

2. Theoretical Framework

This thesis examines the emergent operational models in Norwegian development policy that combine the achievements of public and private goals in development interventions. Traditionally public institutions, as an extension of the state, have been mandated to achieve solely public goals. However, the emergence of mixed goals-achievement in recent years calls for studies about the role of public institutions in achieving both public and private goals. This framework reviews theoretical literature that analyses the existence of a *change* in the role of states, and the reforms that such changes are bringing. Initially, it is presented as a theoretical proposal that argues for the impact of economic globalization on the state. Furthermore, I will present a theoretical approach for the study of political institutions at the national level given that they correspond to the main element of study.

This thesis places political institutions at the centre of a welfare state which is influenced by globalization forces. Diagram No. 1 illustrates how both theoretical frameworks are interlinked and reflect the element of study.

Diagram 1: Connection Between Theory and Case of Study



Theoretical approaches, outlined in this chapter, have a political science tradition; however, in some instances they get scholarly support from international relations.

2.1 Embedded Neoliberalism: The Changing Role of the State

The nation-state, of course, is not dead, but its role has changed.

(Cerny 1997: 269)

Scholarly literature dealing with globalization and political science has come to a consensus about the existence of a *change* on the contemporary welfare state due to the influence produced by global economic processes. As a result, globalization serves also to describe a political phenomenon where practices and institutions of the welfare state enter in a course of (re)structuration (Robertson 1992). This transformation can be studied from two divergent academic positions: the openness literature and the context-contingent view (Schustereder 2010). Given that the latter supports a weak view of globalization, this paper will concentrate on the former from the perspective of embedded neoliberalism.

*Embedded neoliberalism*¹² is “an ideational concept” used by Philips Cerny to explicate the dynamics of change produced by globalization in states and to outline emergent public policy (Cerny 2008a:17). This approach has been inspired in many ways from different dimensions of neoliberalism, like, free market structures and regulations. However it differs from the classical revival of liberalism such as a pure *laissez faire* approach by including an active role for the state in designing, promoting, and guaranteeing the free and efficient operation of the market (Plehwe, Wlapen and Neunhöffer 2006). It also correlates the dynamics of change with pre-existing configurations in national institutions, interest groups, and the mixture of public and private sectors (Cerny 2008a:17).

¹² The concept of *Embedded (Neo)Liberalism* is originally from Ruggie (1983). In international relations theory the concept refers to an approach that explains an international system politically founded on the influence of economic changes. In this system, there is interplay between the compromises of free trade abroad, the welfare state at home, and the citizens of industrial democracies looking for a multilateral system that could assure a prosperous and secure world. In this thesis, I will use the concept from the proposal of Cerny which is focused on national level of analysis.

Therefore, it can be said that there are not uniformed effects of embedded neoliberalism in states because change depends on the shape given by national actors (Cerny 2008a:32).

Embedded neoliberalism is in many ways what Birdsall and Fukuyama have called the “Post-Washington Consensus” which describes a renewed focus of public policy on the flexibility and efficiency of national enterprises and the delivery of social benefits (Birdsall and Fukuyama 2011). This approach is of particular interest for this thesis for three reasons. First, because it places institutional responses together with policy transformation, articulation of non-states actors, and the discourse of “political entrepreneurs” as the promoter factors that drive this change (Cerny 2008a:29-35). Second, it serves to explain “institutional behavior, political processes and understandings of socioeconomic realities” engendered by globalization in the nation-state (Cerny 2008a:2). Finally, this framework argues that embedded neoliberalism is concerned with “the evolving art of governmentality in a globalizing world” (Burchell, Gordon and Miller 1991; Cerny 2008b).

Embedded neoliberalism takes for granted that the welfare state needs to be adapted to global realities. In this process, Cerny (2008a) supports that four main lines of reform can explain the “core dimensions of embedded neoliberalism”. They are: 1) reduction of trade and capital barriers and internationalization of production; 2) embedded financial orthodoxy, such as fiscal and monetary policy 3) competition state; 4) reinvent “governance” (Cerny 2008a:18-28). This literature framework gives focus to the dimensions of embedded neoliberalism that illustrate *political change*: regulation and governance processes. Thus, the financial element is no addressed by this study. Given that the internationalization of production gains importance in a globalized market, political change reflected in policies impacts institutions’ mandates and operational frameworks. In other words, political processes relate directly to the international dimensions of the state, including development assistance provided to other countries and the internationalization of national firms.

In this thesis, it is assumed that through understanding the general direction of change at the nation-state level, it is possible to understand the emergence and evolution of particular political institutions placed at lower levels within the nation-state boundaries. In order to increase the understanding of the competing versions of the nation-state, the predecessor welfare state will be shortly explained, followed by further presentation of the embedded neoliberalist approach.

2.2 Welfare State, Main Characteristics.

The modern form of the nation-state in industrialized Western democracies corresponds to the post-war national welfare state (Cerny 1997:258). The welfare state is commonly known as a state that has the capacity to promote economic growth and to achieve welfare or public goals at the same time. This means that the core functions of the welfare state are commonly divided into “efficiency” as the economic goal, and “equity” as the social goal (Schustereder 2010:14). In a broad sense, the welfare state is based on a fundamental division of functions, one of the state, and one of the markets, which seem to interact in order to expand welfare benefits and to maximize market-oriented growth (Ibid).

The welfare state produces the *equity* goal by creating an “equitable society”, which means reducing the levels of insecurity faced by citizens in a capitalized world (Barr 2004:10; Briggs 2006:16). In sum, citizens of the welfare state expect: price regulation of goods, the existence of a contractual framework to protect private property, job-security legislation, environmental policies (Lindbeck 2006:2), and the provision of cash or in-kind social welfare benefits (Pierson 1998). Close to this goal is the concept of “common goods” or “public goods” which refer to “goods where it is not possible for the individual to exclude others from using the good” (Rothstein 2001:215). Examples of this are, among others, *the commons*¹³ and public services. In other words, the society expects that the welfare state provides common goods. Finally, the creation of an

¹³ *The commons* in political science refers to the resources that are collectively owned or shared by the population. They are classified as tangible assets like natural resources, and intangible assets like public knowledge not privatized by copyright law. For broader discussion see Bollier (2003).

equitable society is mainly debated due to the existence of various perceptions of the concept of *equality* (Bell 1973; Flora & Heidenheimer 1981) which leads to generalized confusion on the type of demands that societies have of the state. However, despite this social dilemma, Barr (2004) argues that a central social function of the welfare state is based on granting minimum living standards for all citizens.

2.3 The Competition State

Welfare states at the center of globalization, argue Cerny, have evolved into a *competition state*, which seeks to enhance wealth by market-based approaches (Cerny 1997, 2008a). The main focus of this type of state is the promotion of economic activities in order to remain competitive relative to other states; thus, actors seek to reinvent the state as a semi-enterprise association for common ends (Ibid). In this context, the dynamics of competition take place on three different levels: business looking for markets; states looking for economic activities; and one that places factors of production in a competition arena. Within this three-level model, non-state actors (like market actors, businesses and civil society organizations) have increasingly gained places in the political arena where the state plays the role of commodifying agent or as a (quasi-) market actor itself (Cerny 1997).

In the effort to reach competition goals, national politics become subordinated to the global economy (Stopford and Strange 1991) because state-based activities increasingly turn into marketized ones. In terms of regulation, the predominant form is based on the arms' length regulation which focuses on founding and implementing general rules applicable to particular sectors (Cerny 1997, 2008a). The resulting pro-market regulatory agenda of the competition state encompasses a framework that provides rules and procedures in a semi-legal environment for (market) actors to operate. This approach is the product of a generalized idea that "governments should steer but not row" (Osborne and Gaebler 1992). According to Cerny (2000), this idea suggests that regulation becomes more intrusive, increasingly based on contractualization and *a posteriori* enforcement. Summing

up, the regulation tendency of the competition state is based on alternative regulation forms rather than enhancing deregulation (reduction of rules and state intervention).

2.3.1 Industrial Policy

In the competition state, policy transformation is visible in trade, industrial, monetary and fiscal policies (Cerny 1997). In line with the purpose of this paper, solely the industrial policy type will receive closer attention.

Industrial policy is concerned with “a country’s strategy to develop specific industrial sectors” (Birdsall & Fukuyama 2011:49). This is of particular interest because the interventions of a state become increasingly targeted towards providing assistance to specific sectors of the economy, so that they can be developed. Following this course, states assume some of the cost of adjustments and can facilitate conditions that determine competitive advantage, like:

...encouraging mergers and restructuring; promoting research and development; encouraging private investment and venture capital, while providing or guaranteeing credit based investment where capital markets fail, often through joint public/private ventures; developing new forms of infrastructure; pursuing a more active labor market policy while removing barriers to mobility, and the like. (Cerny 1997:264)

In this context, the contribution of the competition state in productive sectors is associated with the task of addressing coordination problems that inhibit the growth of a strong private sector. Some such failures are produced either by the failure of market forces or the incapacity of states. Therefore, the state intervenes in order to deal with financial or other risks related to promoting the development of a healthy national industry (Birdsall & Fukuyama 2011:49-50) which can also compete in the global markets.

2.3.2 Governance

The competition state approach also suggests a *change* in governance practices. Governance refers to the forms of how the state uses its authority and resources to interact with the market and society. In this regard, Cerny suggests that transformation of the *modus operandi* of the government is reflected on the tasks

of bureaucracies that now monitor and supervise the production of public goods and services in-line with performance indicators (Cerny 1997: 66). Institutions of a competition state would contract out services, undertake public-private partnerships (PPP), or use jointly private capital for public purposes (Cerny 2008a:27). As a result special-purpose bodies, that engage markets actors in the allocation of resources and values, have come to materialize in the nation-state (Cerny 2008a). Colin Leys (2001) uses the term *market-driven* to describe emergent political practices that combine traditional institutional features with market-based procedures and reasoning. This mixture of public and private roles, can be said, advances the emergence of *market-driven political institutions* that progress this governance model.

Embedding neoliberalism as a process of liberalization, privatization and market-oriented practices, is argued to have reduced the capacity of states to achieve common or public goals (Lipschutz and Rowe 2005). Previous studies of market-driven mechanisms in an international context have suggested difficulties to make generalizations about the achievement of public goals; however, it seems to be determined by the type of interests of the private partners, the nature of the collaboration between actors, and in targeting long-term goals (Bull and McNeil 2007). In fact, embedding neoliberalism as a theoretical proposal identifies a need to promote social integration and to balance the trade-offs resulting from the mixture of public and private interests (Cerny 2008a). Current theoretical gaps are reflected in the quest on how balance public-private interests in manner that permit effective collaboration of mixed parties and the delivery of ultimate public goals.

At an international level, the *global governance*¹⁴ concept has advanced a neoliberalist governance model that explain rule-making, exercise of authority and practice of compliance by actors that are not invested by nation-state sovereign authority. Recent theory development, in that field, suggests that the

¹⁴ *Global Governance* is a political model concerned with mechanisms of control and the systems of rule without the existence a defined sovereign authority. This concept does not refer to systems of governance applied by international organization i.e. United Nations, it rather defines a system where state and non-state actors can exercise control at transnational levels. For a broader discussion see Rosenau and Czmpiel 1992; Whitman 2009)

types of inquiries in the global approach are also relevant to national political debates (Sending 2010:437-438). The global governance approach is useful to explain the presence of non-state actors in political arenas and their emerging responsibilities given by states to advance public interests. While the welfare state is an important actor in world politics, it is not the only one. Non-state actors, like business and civil society organizations (CSOs), have emerged at national level as well. They have increasingly been involved in “traditional government tasks” concerned with “the organization and control of economic, political, and social activities by means of making rules, implementing, monitoring, and enforcing [them]” (Mattli and Woods 2009:1). Cerny (1997) supports that the competition state lays in the center of a *governance triangle*¹⁵. This model explains a negotiation arena where the state, business actors and civil society organizations interact to regulate, set standards and undertake accountability procedures (Abbott and Snidal 2009; Cerny 1997). As a result, new governance models arise.

In the case of a competition state concerned with business promotion, the involvement of civil society organizations has come to be understood as a balancing force. First, because they bring to the negotiation table topics of public interest such as social and environmental issues, often absent from market-driven operations (Lipschutz and Rowe 2005). Second, for Cerny, CSOs operate under a “flexible market-like—yet socially aware” position, they can reconcile the strategies of market-driven institutions (Cerny 2008: 35-36). Third, some of their actions have resulted in challenging and complementing regulation in the competition state. CSOs can produce “regulatory standard setting” which advances public interest in state interventions (Abbott and Snidal 2009:44). CSOs can serve a balancing force in competition state operations.

In summary, at the national level a complex form of governance emerges. It puts neoliberal politics together with raising interest groups and political

¹⁵The *Governance Triangle* depicts a transnational regulatory space where States, firms and CSOs have direct participation in regulatory (standard setting) and accountability processes (Abbott and Snidal 2009)

entrepreneurs in an arena where domestic *social*¹⁶ issues are being reinvented (Cerny 2008a:36-37; Cardoso 2001) in a manner that marks a growing political imperative to structure the equity dimensions of politics in a globalized world. This additional feature of embedded neoliberalism illustrates a link between trade opening and social and environmental standards (Cerny 2008a:39). It does, as well, calls for new governance models that include both several types of actors and interests.

2.3.3 Taking the Competition State Further

In this order of ideas, the welfare state in the center of globalization is experiencing a process of change, denominated embedded neoliberalism. This change might bring within itself new roles for a competition state, as argued during this chapter. Other scholars argue that a forthcoming model is the *relational state*. In this approach, the role of the state will be focused on social and environmental dimensions of the commons, and yet still maintain the emphasis on business promotion and market forces (Middtun 2005; Mendoza and Vernis 2008). In fact, both conceptual propositions of the emerging role of the state points towards market-driven politics.

2.4 Political Institutions – The New Institutionalism

Further, this thesis intends to analyze the type of involvement and the outcomes produced by an emergent category of market-driven institutions in the Norwegian Aid sector. To approach this object of study, I will apply the theoretical foundations of the *New Institutionalism*. Despite the existence of economic, political and sociological institutions; the political approach to New Institutionalism is founded on political science and it has been used in recent theoretical and analytical debates on this field (Scott 2008). March and Olsen (1984; 1989; 2008) have tradition within this theory. They have advanced the analysis of regimes and governance mechanisms that constrain and empower

¹⁶ Here the term *social* can be understood as *common or equity goals* (in the view of welfare state) or *public interests*, for a more general approach.

behavior. This approach fits well my study because it explains institutions from a normative perspective giving emphasis on their missions, routines, and norms.

Institutionalism is a term used to indicate the general approach of the study of political institutions based on the relations between institutional characteristics political agency, performance and change (March and Olsen 2008:4). By explaining institutions as “collections of structures, rules and standard operating procedures” (Ibid), this approach goes beyond the rational actor perspective which focuses on rule systems structured by individual’s self interests. Moreover, it emphasizes that norms are the source for understanding how institutions function and shape members’ behavior.

According to March and Olsen, an institution is:

A relatively enduring collection of rules and organized practices, embedded in structures of meaning and resources...and [are] relative resilient to the idiosyncratic preferences and expectations of individuals and changing external circumstances. (March and Olsen 1898; 1995 in March and Olsen 2008:3)

From this perspective, institutions give order to social relations and limit individual’s chances to pursue self-interest (Weber 1978:40-43). Thus, actors’ decisions are determined by rule-following. It is therefore expected that the members of institutions act in conformity to the guiding principles and as the guardians of those established norms (March and Olsen 2008).

From this approach, the concept of institution is central to political analysis as it focuses on: “a) the nature of institutions, b) the processes that translate structures and rules into political impacts, c) the processes that translate human behavior into structures” (March and Olsen 2008:4). Something useful for the purpose of this thesis that, empirically, places Norfund as a political institution aiming at analyzing its nature, its mission and its operational form. Additionally, new institutionalism also fits well the first theoretical approach –the competition state- because it describes *change* in political institutions as a process where an institution gets adapted to the shifting environment in order to survive and prosper. It is argued that through identifying the alterations of institutional roles,

change can be prescribed, proscribed, sped up or delayed (March and Olson 2008:11). If this is true, it is possible to say that changes in institutions can be indicators of bigger processes of change within a nation-state or a society.

2.4.1 How To Approach Institutional Studies

The concerns of political institution scholarship are “to what extent, in what respects, through what processes, under what conditions, and why institutions make a difference” (Weaver and Rockman 1993; Egeberg 2003). Critics have pointed out that a great deal of the institutionalists’ work focus too much on details of a single and complex case of study (Scott 2008:32). Single case study as methodology is useful for giving close attention to the factors of study, as I will explain in chapter three. Even though I do not intent to overcome this criticism by applying a different method of research, I find possible to contribute with this challenge by attempting to incorporate theoretical elements and to contextualize them in my case of study.

Neo-institutionalists have traditionally focused on a social-constructionist position and have dedicated attention to institutions as a larger framework of thinking (Krasner 1988:72; Scott 2008). These types of analysis have been valuable at accounting for diverse institutional forms and their effects. Nevertheless, the process that “translates structures and rules into political impacts and the factors that impinge upon them under different conditions” are lesser known (March and Olsen 2008:10). Consequently, the increasing interest in describing and studying the effects of institutions advances our understanding about new forms of goal-accomplishment (March and Olsen 2008). In other words, analysis of institutional processes and results can serve to enlarge our understanding of market-driven institutions.

2.5 Concluding Remarks

Embedded neoliberalism describes a process of change where states increasingly promote market-enabling mechanisms. This thesis intends to contribute to better understanding of the transformations occurring in Norway from studying one

case in the Development Aid Sector. By analyzing what forms market-driven interventions have, and what kind of outcomes are resulting from them, we can enhance our understanding of international manifestations of the competition state through foreign aid policy.

Institutionalism offers a theoretical platform for the study of political institutions, and is well suited for the case study of this thesis, as this approach, in the centre of political science, is based on analyses within the state system. This means that non-state actors are excluded from the reach of this approach. Nevertheless, as the proponents of this theoretical approach have acknowledged this limitation, and have left open questions regarding the need to develop a framework that goes beyond markets or hierarchies (March and Olsen 2008: 16). This thesis will include the presence of both institutions with political authority and emergent non-state actors in an analysis based on institutionalism's prescriptions.

3. Method

This chapter presents the research methodology applied to this study. The design of a research study is “a *logical model of proof* that allows the researcher to draw inferences concerning causal relations among the variables under investigation” (Nachmias & Nachmias 1992:77-78, emphasis added). Such a design should deal at least with four problems: what questions to study, what data are relevant, what data to collect, and how to analyze the results (Philliber, Schwab, & Samsloss 1980). For answering my research question of “do Norwegian public finances to private sector promote development?” I chose a flexible qualitative method that allowed me to include several elements useful to analyze the academic inquiry. Basically the research has been guided by single case study methodology because it is useful at capturing “the wholeness of a phenomenon” (De Vaus 2006a:xlix). As my case study refers to a political institution and its results, I have elaborated a framework to define the goals against which results are measured. So that analysis could be possible in the three major levels of study, from the narrow to the most general, assessment of the Bugoye Hydropower Project; the role of Norfund in this intervention; and Norfund- a market-driven institution for delivering aid in the Norwegian competition state context.

3.1 Qualitative Method

The overall case study is based on qualitative research method. A qualitative method is a general approach that applies a range of research strategies in real-world settings, and is well suited for fields where there is little pre-existing research (Robson 2002). This method seemed to be a good approach to analyze Norfund due to the nature of an emergent market-driven institution. Quality studies are also well suited for study “topics that do not fall under well-established boundaries” (Yin 2011:25). To study Norfund as market-driven institution (concerned with development finances for development and public finance mechanisms for clean energy) is challenging because the institution is placed among a plurality of mandates, goals, strategies, actors, expectations and

operational forms. The qualitative method further encourages the researcher to use multiple sources of evidence to explain a current reality through pre-existing or emerging concepts (Ibid:3). To work with emerging concepts might be difficult, especially when there are no clear meanings in the reality. However I found the qualitative method helpful to overcome this challenge because it allowed me to use several sources of evidence to give insights about the three levels of the research and their connection to the research question. I believe that multiple sources of evidence are important to bear in mind in situations where stakeholders have diverse expectations about the type of results which an aid intervention should deliver.

3.1.1 Flexibility of Design

Applying a qualitative research method demands rigor but at the same time it allows flexibility by permitting the in-depth design emerge during the course of the study (Creswell 2007). This was particularly important during my research because in some instances I saw a need to conduct additional interviews or to search for more data whenever the initial data collection strategy did not provide me with sufficient information for analyzing the relationship between the data, the objects of study, and the theoretical links. A flexible design usually puts together several techniques of data collection such as interviews, observations, and literature analysis (Ibid). In this thesis, I used interviews, analyzed documents, and observed public debates about Norwegian foreign aid. On the whole, the design of this research is qualitative; however, the case study method is used as a particular form to conduct the research.

3.2 The Case Study

To date there is no scholarly agreement of what constitutes a case study; academic literature has defined it as an explorative stage of various research methods (Hoaglin et al 1982). However, this thesis sees *case study* as an “all encompassing method covering the logic of design, data collection techniques,

and specific approaches to data analysis” (Yin 2009:18). Within this approach, a case study is defined as:

An empirical inquiry that investigates a contemporary phenomenon within its real life context, especially when the boundaries between phenomenon and context are not clearly evident. (Yin 1994:13)

In case study research, the researcher tries to construct an understanding about the object of study informed by the context within which the case exists (De Vaus 2006b: 6). In this thesis the empirical inquiry is the research question and the contemporary phenomenon that gives context to the case study is the influence of globalization in states, as reflected in the emergence of market-driven institutions in the Norwegian foreign aid sector.

3.2.1 Theory Testing

Case studies are particularly useful for theory testing (Yin 1989a). On the basis of a theory it is possible to predict that a case with a particular set of characteristics will have a particular outcome (De Vaus 2006b:8). The major objective of this thesis is to enhance the competition state’s theoretical approach. Based on the competition state theory presented in chapter two, my main argument is that both equity and efficiency goals of a welfare state can be achieved through market-driven institutions situated within the competition state through emerging governance models. The results of the analysis will allow me to affirm or negate the proposed theory.

An initial assumption is that the case of Norfund fits well to test a competition state theory because the rationale and operational forms of this emerging institution have elements explained by that theory set. Additionally, the context provided by the Norwegian foreign policy goes in line with political phenomenon suggested by embedded neoliberalism. Thus, the case of study that provides the real life situation matches the conditions under which the theory proposes particular outcomes. Through “pattern-matching” process, the researcher can analyze and test a theory with empirical evidence collected from a single case study (Yin 1989b:109-113). To analyze theory testing in case studies I applied

theory to identified pattern of events, which then become the benchmark against the collected data was tested.

3.2.2 Trustworthiness in a Case Study

Trustworthiness is an important element for producing research, and the most important tools for achieving this element are *validity* and *reliability* (Robson 2002, Yin 1989a). Validity relates to the accuracy of the findings. Reliability concerns with the consistency of interpretations and results. Through fulfilling those elements in a satisfactory manner, a case study can increase its ability to generalize from findings. Case studies are supposed to capture both the uniqueness of the object of study and its wholeness. Usually they depend on non-standardized research methods, so it is often a question among researchers whether it is possible to generalize from case studies (See i.e. Robson 2002, Kennedy 2006). Generalization refers to the extend of which findings can be understood as general results delivered by specific processes and missions of a defined type of institution, in this case. Generalization is possible if the findings can be are applied outside the specific context of the situation studied in a particular case and whether they serve to explain other similar cases.

Research methodologies have a tradition of elaborating upon assumptions for statistical validity, reliability, and generalization from quantitative data. The debate about whether such methods can be applied in qualitative research design is extensive. Yin (1994) has written that the means of generalization in case studies is of analytical or theoretical representativity, instead of as a statistical one. Therefore I have proposed that my research will aim at providing theory testing. To enhance a study's ability to construct validity, the use of multiple types of evidence is suggested (Yin 1989a:23, Gerring 2007:173) and through the specifying of theoretical relationships from which generalizations can be made (Yin 2006:88). For building reliability, similar case study protocols should be developed to support the procedures that were followed (Ibid). In the event of evaluative case studies, generalizations should be grounded on the individuals that would apply the evaluation findings in similar situations (Kennedy

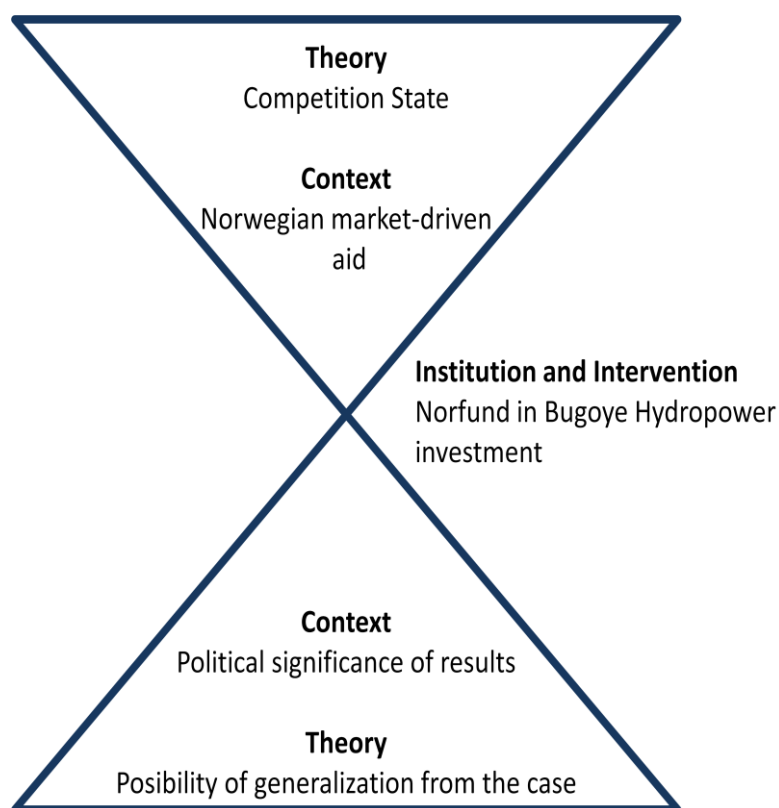
2006:101). To avoid this shortcoming I present a method of assessment which guided the evaluation of the studied intervention in my case study.

Generalization of case studies should be guided by the aim to understand the case itself (Stake 1995). Thus much effort is directed through the complete thesis to explain the case as a wholeness that comprise a contextual background, the specificity under which a particular institution operates, the expectation of stakeholders, the analyzed intervention and the significance of the results provided by the intervention to the institution, the context and the theory.

3.2.3 A Three-Level Case Study

I describe this case study as *hourglass-shaped*, as it approaches the topic of study from a broad theoretical and contextual level, narrows it down through examining the institution until focused upon the details of a particular intervention, and then again more broadly assessing whether the intervention achieved the proposed goals. Diagram No. 2 shows the hourglass-shaped that represents the reasoning model used in this thesis.

Diagram 2: Reasoning Model for Case Study



Within this reasoning model, the unit of study can be analyzed in a particular setting according to an established assessment method. Resulting data should draw on general conclusions about the role of Norfund in the broad settings or within the above mentioned case context. The framework of reasoning is in line with the various levels of analysis proposed in the diagram No. 1, found in theory chapter

This thesis intends to analyze the object of study from three levels. The level one is the context; level two is the institution; and level three is the intervention. An analysis of Norfund in Bugoye focused on these three factors permits this research to draw conclusions about Norfund's role in promoting development by injecting public finances through private sector.

3.2.4 Unit of Analysis

A case is the object of this study, so empirically this means that the main unit of analysis is the Norwegian market-driven institution *Norfund*. This case study involves the review of the working procedures applied by Norfund in order to achieve the goals of Norwegian foreign aid, namely 'development'. Thus, Norfund is studied from the theoretical approach of *new institutionalism* from which the institution is understood as a collection of rules to follow and not as an organization affected by individual's choices.

Norfund's Intervention: Bugoye HPP

To be able to analyze whether Norfund is fulfilling its mandate and delivering development results, an analysis of investments is required. In order to inform a study of the work of this institution and its results, I have selected to one particular intervention in Norfund's energy portfolio, the investment of Norfund in Trønder Power Ltd to construct a hydropower plant in Bugoye, Uganda. This specific company and project were selected because the Bugoye project has had widespread media coverage and it has been referred as a reference project for Norwegian finances supporting hydropower companies building clean energy sources in Africa in the name of foreign aid.

3.3 Assessment Method for the Bugoye Intervention

To give answer to the research question, it was necessary to define an assessment method that oriented the sub-question on whether Norfund's intervention provided 'development'. To elaborate a conceptual framework, an *intervention* is a standard term used to indicate the subject of an evaluation, which could be an activity, project, program, strategy or policy (OECD/DAC 2006:6). Specifically, I will be looking an investment channeled through a project; which is "an exceptional, delimited task with a predetermined objective which requires a certain amount of resources and a coordinated human effort" (Jessen 2002:30). Further, the practice of assessments is found in literature about evaluation methods. Broadly speaking, an evaluation is seen as a "structured process that creates and synthesizes information intended to reduce the level of uncertainty for stakeholders about a given program" (McDavid and Howthorn 2006:3). In other words, an evaluation may collect useful data to inform stakeholders about an intervention. Case study serves evaluation research in several ways: it helps to explain the presumed causal links in real-life interventions; it describes the intervention within a given context; it can be used to enlighten interventions with no clear or a single set of outcomes (Cronbach 1980; Patton 2002).

To select the applied assessment method a number of evaluation methodologies were considered. The method applied is a flexible approach with three elements which were decided on the needs of the study. First, the data collection of the Bugoye intervention was guided by the terms of a DFIs institution, where I used the IFC's Development Outcome Tracking System (IFC DOTS). Second, results needed to be assessed according to stakeholders' expectations and their considerations of what was a good and desirable 'development' result, for which I collected interviews from several Norwegian stakeholders. Third, the results of development interventions are difficult to assess because there are usually different positions of what contributes to the ultimate goal. Based on, the institutional mission and the applied concept of 'development', I have selected two benchmark models to analyze social and environmental effects produced by

the intervention. One of them is the benchmark-based Livelihoods Framework, broadly used by other social sciences disciplines, for assessing the goal of poverty reduction, given that the background of this case study presupposes that socially related results of DFIs are little understood. The other, is based on contrasting the environmental results with the statements of the institutional mission, the stakeholder's positions and Goodland's (1998) concept of Environmental Sustainability which has been broadly used in scholarly about sustainability of the natural environment.

3.3.1 The IFC's Evaluation Framework for Investments- DOTS

The IFC's Evaluation Framework for Investments was designed to capture the overall impact of the contribution of market-driven interventions: public investments in private companies with developmentally sound goals. In their words "to be considered a development success, every project has to make a positive contribution to the host's country development" (IFC a: 1). The IFC set has a Development Outcome Tracking System (IFC DOTS) that permits a more comprehensive assessment of project's contribution to development (IFC b). The IFC DOTS organizes the 'development outcomes' of an investment into four areas that are supposed to cover projects many-sided contributions to developing countries. The four performance areas are financial performance, economic performance, environmental and social performance (ESP), and private sector development (PSD) (IFC a). Annex 2, provides detailed information about the rationale behind each performance indicator. The form of how a project contributes to a country's development varies by industry sectors. For the infrastructure sector, the IFC considers that "society at large is the main beneficiary of infrastructure projects" (IFC c). The rationale behind this assumption is that the lack of sufficient infrastructure is often a symptom and cause of poverty.

3.3.2 Norwegian CSOs' Expectations

From the perspective of Norwegian CSOs, measuring the success of public financial mechanisms to energy infrastructure projects, that should have an

impact in a country's 'development, have additional implications. Their vision of the concept of 'development' varies according to the orientation of their missions. It is not the plurality of meaning what makes important to survey this type of organizations, but their contribution to a Norwegian model. CSOs have historically helped to legitimate the Norwegian model of aid delivery (Tvedt 2009). Understanding their positions is a source to enhance public stakeholders' considerations about Norfund's achievements. It also opens doors to interpret the 'development' effects of a market-driven intervention. I surveyed Norwegian CSOs concerned with the topics of hydropower aid, energy investments in developing countries, and Norfund. Data acquired for the Bugoye project is assessed here against CSOs positions about what they consider best practices regarding hydropower-related aid financed by public funds.

3.3.3 Social and Environmental Effects

To enhance understanding of the Bugoye intervention I will use the *Livelihood Framework* to consider the impact of the power plant on the local population and the *Environmental Sustainability* concept to judge the contribution of the project to nature.

Livelihood Framework

The *Livelihood Framework* has been used widely in contemporary poverty writing. UNDP's researchers have identified the livelihood framework as a good approach for illustrating poverty reduction studies (Steele et al 2008). It also suggests a way of organizing policy analysis by identifying five components. For Chambers and Conway a livelihood refers to the means of living of people and it comprises capabilities, assets, and activities required to obtain such means. A livelihood contains five essential asset components: natural, physical, human, financial, and social capitals (Chambers and Conway 1992:7, Scoones 1998). Annex 3 introduces each asset in detail. Policy analysts are required to find evidence of the reduction of poverty if the five key assets bases were increased (Steele et al. 2008:xxiv). Therefore, this general assumption will be critically tested in the evaluation of this case study.

Environmental Sustainability

To avoid providing a biased assessment of the concept of ‘development’ by giving it a social emphasis, I also have applied Goodland’s (1998) concept which revindicates the value of nature *per se* and it’s utility for sustaining humankind. Environmental Sustainability is concerned with the maintenance of the natural systems that support life i.e. atmosphere, water and soil (Goodland 1998). Thus, the analysis is guided by the rationale that market-driven aid interventions preserve such systems.

3.4 Data Collection

Case study’s unique strength is its ability to deal with a full variety of evidence. (Yin 2009:11)

Data collection methods concern the modes of obtaining specific information. In order to reduce potential bias in a case study I designed the process of data collection based on triangulation, a strategy used for drawing information from multiple sources to leverage the rigor of research (Robson 2002). Fieldwork in qualitative research refers to “the attempt to capture real-life conditions, embracing the perspective of the people who are part of these conditions” (Yin 2011:66). As the strategy of my case study was from general to particular, so does the method. Data collection started with analysis of documents, exploration of the context through attending public meetings and realization of interviews.

3.4.1 Analysis of Information

In the first stage of data collection I reviewed Norwegian news papers concerning with to foreign aid, the publications of the aid institutions Norfund and NORAD and the WebPages of civil society organizations that followed Norwegian aid. Through exploring the initial documents, I encountered references of books, magazines or related articles that were relevant to the topics of models of aid that engaged commercial actors, aid evaluation, evaluation methods and significance of results for aid policy. As I did my field work in Oslo, Norway, I had access to public libraries of universities and those connected

to other research institutions. Additionally, public institutions as NORAD, Norfund and the Norwegian Ministry of Foreign Affairs have publications available in paper due to request. Those sources were valuable in exploring the initial broad topic. They also deserved a second or third revision accordingly my research was getting a narrower shape.

Other important source of data collection for information such as articles in news papers and access to Ugandan information was the Internet. I used the source as a mode to obtain information that was either published on web-sites or through contacting organizations by electronic mail. In early stages of the research, I discovered that much information about Ugandan national plans was available online and I used this to my advantage. To some extent, online information eased my research in terms of transportation, I did not need to visit Uganda physically to obtain general information about the country and its policies. Internet, however, is a very demanding source because as a researcher I always needed to be cautious about the source of the information. I decided to use data only from selected sources such as public organizations that I was familiar with or from organizations that were referred in other reliable articles or books.

Analysis of documents was an important tool at studying the intervention of Norfund in Bugoye. I am very thankful to Norfund, TrønderEnergi and Trønder Power Ltd for allow me access to information for ‘internal’ use, so that I could have a better understanding of both Norfund processes and how they were applied specifically in the Bugoye project. Detailed information on the case will not have been possible without having access to this type of documents.

3.4.2 Direct Observation

In participant observation, a traditional methodology for doing fieldwork, the researcher is the “research instrument” (Yin 2011:122). During the explorative phase I attended public¹⁷ conferences and debates about energy-related Norwegian aid, DFIs, neoliberalist approaches in Norway, and public-private

¹⁷ With “public” arrangements, I refer to events organized by state-agencies, academia, or open forums for the general public.

investments from February 2010 to June 2011 in the cities of Oslo and Trondheim (Norway), in order to give shape to my research question and topic. After the research question was clarified, the second part of direct observation had a more concrete purpose: outlining the contextual background of my case study. For an overview of the attended meetings, see Annex 4. The emphasis between participating and observing can produce several variants (Gold 1958). In the initial phase of the field work, my role as researcher was solely observant, intending to absorb as much information as possible about the object and unit of study. During the second phase, with my knowledge augmented, I faced the challenge of making more strict tools to avoid playing the double role as a participant and as an observer. So, I prepared in advance notes about the topic of interests of the meeting; something useful at taking notes on concrete aspects for the research. Moreover, I elaborated questionnaires that I could use to start informal conversations with speakers and other participants after the conference was over. Preparation in advance helped me to develop a critical understanding of the observed context and the presented discourses and informal conversation allowed a context where I could explore more concrete issues for the research.

Direct observation was crucial for better understanding the trends in the Norwegian aid system and its connections with this case study. During the study period I did not find a conference organized directly by Norfund, instead representatives of the institutions were presenters in different arenas. Attending all possible conferences where Norfund's employees were present helped me to get familiar with the fundamental positions, concepts, and contacts of the institution. It also provided me with a network within CSOs' representatives, something that eased the arrangement of interviews.

3.4.3 Interviews

Interviews help to obtain unavailable information by asking questions and receiving answers. During the preparation for interviews I contacted the informants through e-mails. I introduced me and my research, explained my reason for contacting the person, and described the potential questions I would

like them to address in an interview. Before the meeting, I prepared a list of questions based on the institution, the background of the person and the type of information that he or she said that they could provide. Interviewing involves intuition, creativity, and improvisation (Brinkmann and Kvale 2009:86). I believe that my previous experience as a young journalist developed skills of listening, following a conversation, and to extract the core of it while considering my aims and available time with the informant. Further, the praxis of an observation method strengthened on me such skills. During the interviews I prepared my questions, but was also ready to create new questions, ask for further explanations, descriptions and meanings.

The interviews were realized in Oslo and in Trondheim, Norway between January - May 2011 (See Annex 5). Previous notification to informants made the dialogue smooth. While interviewing CSOs I experienced that such organizations had diverse approximations to the same topic. This raised a permanent concern for summing up and to provide an explanation in my own words, so that the informant could confirm if my understanding was right or wrong. This allowed an opportunity for clarifying inputs. My strategy was to interview Norfund last to make of it a more analytical interview. Interviewing Norfund in two phases was advantageous. With the initial interview I gained an insight about the persons who possessed diverse information that I required; consequently, during the second stage I targeted questions to the informants. The lack of time caused an absence of a secondary meeting with informants. However, it is possible to claim for the validity of the data due to the realization of a quality control process while interviews were conducted.

3.5 Considerations of the Research

Case studies often examine contemporary events that cannot be manipulated (Yin 2009:11). The main role of the researcher, therefore, is to observe closely and directly the phenomenon and to collect information from actors involved in it. During my fieldwork, I considered how I could affect the events or the position of informants. I found that if I shared my personal opinions with informants their

position was affected somehow; therefore I decided to avoid that. This practice required training and high consciousness about my role as researcher. As a foreigner living in Norway, I experienced that most of the informants provided additional information in areas where they considered that a person with my background might not be familiar with. This was advantageous because it gave a deeper insight of how people working in different institutions understood their own reality and missions.

Storage and Analysis of Data

Other consideration for the research was the data management. I kept record of all data collected on an Excel spreadsheet with references and notes. For interviews, I initially used a tape recorder; then, I transcribed the interviews adding my reflections. During analysis, I used all the formats of data collected during the fieldwork process. At times I felt the need to go back to the interviews or to review documents to listen or read carefully again in order to compare findings with my understanding, so, that my analysis was based accurately on the collected information. Dealing with multiple source of evidence was a challenging task but manageable with a system for keeping track of all data.

3.5.2 Ethical Considerations

As a researcher I was conscious of my responsibility with regard to how I treated my informants and the data they provided, and how I used it. Ethics become important when the topic of study is politically or business sensitive. I followed ethical routines by telling all my informants how the data would be used and asked for permissions of confidentiality whenever necessary. My informants demonstrated open attitudes. At times I had access to confidential information; useful at increasing the understanding of the case. Such documentation was treated as requested. Some documents are not disclosed; while with others I had the choice to wait until official publication. After considering the trade-offs of a delayed delivery and the incidence of such source of evidence I followed the requirement in view of the data gave analysis quality; serving my readers as well.

4. Realist Norwegian Foreign Aid

In chapter one I formulated my research question, and in chapter two I outlined a theoretical framework for this analysis. In chapter three I argued that the case study has three levels of inquiry, and explained that the data will be presented from the general to the particular. The contextual case background is delineates the transformation of the Norwegian foreign aid policy from a humanitarian perspective towards a realist approach.

Political realism emerges in the foreign aid policy. It is reflected in policy formation, budget allocation, and types of interventions that combine Norwegian interest with the ideals of foreign aid. The Clean Energy for Development Program is an outstanding example of this change. It shows how the interests of the Norwegian energy sector are incorporated on interventions that aim at helping poor countries to develop their energy sectors through projects that include the participation of the private sector.

4.1 Norwegian Development Assistance Policy

The Norwegian Official Development Assistance (ODA) Policy, hereunder foreign aid, manages the long-term bilateral cooperation and multilateral aid given by Norway. The Ministry of Foreign Affairs (MFA) is the entity with political responsibility for the overall ODA. It delegates responsibility to Norwegian Agency for Development Cooperation (NORAD); its task is to “contribute to effective management of aid funds, and ensure quality and evaluations for Norwegian development assistance¹⁸”. Other institutions, such as Norfund, also assist in concrete aspects of foreign aid delivery. Norfund is an ODA instrument concerned with the tasks of *development finances* and it is the Norwegian equivalent of Development Finance Institutions (DFIs) –topic that will be expanded in chapter five-.

¹⁸ NORAD. “What is NORAD?” (Own translation). Accessed on on 23 April 2011.
<http://www.NORAD.no/Om+NORAD/Kva+er+NORAD%3F.122607.cms>

The overall purpose of Norwegian ODA policy is to combat poverty and to ensure social justice. Additional goals are organized into key priority areas; areas where Norway can make the greatest contribution (Chart 1).

Chart 1: Priority Areas of Norwegian Aid

<p>Overall goal: Reduce poverty and ensure social justice</p> <p>The Environment and Sustainable Development Peace Building, Human Rights and Humanitarian Assistance Oil and Clean Energy Women and Gender Equality Good governance and the fight against corruption Health-related Millennium Development Goals Particular emphasis on Climate Change</p> <p>Source: Norwegian Ministry of Foreign Affairs. "Development Cooperation. Retrieved 25 May 2011. URL: http://www.regjeringen.no/en/dep/ud/selected-topics/development_cooperation.html?id=1159</p>

These goals are the result of the political goal setting actions. During the last few years a series of policy proposals have made evident changes in policy orientation. The Norwegian system is founded on a humanitarian basis (White Paper 23, 1961-1962) under which there was a general tendency to consider development under "modernization thinking tempered with welfare state ideas" (Simonensen 2008:106). In other words, foreign aid generated 'development' if the equity tasks of the assisted states were improved. In recent times, political regulation is more inclined towards aid frameworks concerned with the efficiency task of the state: economic growth, private sector development, provision of development finances, and partnerships (See Annex 6); topics that conventionally were outside the foreign aid agenda.

The Foreign aid Budget

The Norwegian government finances ODA Policy by allocating 1% of gross national income (GNI) on an aid budget; this amount is significant given that Norway is a high-income country. The total budget for foreign aid is administered by the MFA¹⁹. During the last years the budget has increased steadily (See Annex 7) despite of the finance crisis that led to the reduction of

¹⁹ NORAD. "Norsk Utviklingspolitikk". Retrieved 3 February 2011. Own translation.
<http://www.NORAD.no/Om+bistand/Norsk+utviklingspolitikk>

committed resources in many other rich countries. In the last two budgets (2010-2011) the discourse of “supporting areas and initiatives where Norway can make a difference²⁰” has outstand; so does the financial arrangement for those programs. The emphasis on climate change stated on the policy goals has been reflected on the budget as well. In 2010, the government allocated NOK 650 million out of NOK 27.4 billion (total aid budget) to the Climate and Forest Initiative²¹. In the following year, the budget demonstrated a strong political signal to prioritize renewable energy efforts in Norwegian aid policy. In 2011, the funds to the promotion of renewable energy were doubled from approximately NOK 800 millions to NOK 1,6 out of NOK 27.1 billions²² (of total aid budgets for this year). Further, the highest financed topic in the Clean Energy for Development Program was the mobilization of Public-Private Partnerships with an allocation of NOK 425 millions which will be channeled through Norfund. Consequently, it is possible to see the emergence of the use of public finances to incentivize private sector investments for energy related aid projects.

4.1.2 Clean Energy for Development Program

The Clean Energy for Development (CEfD) program started in 2007, with its main objective being “to increase access to clean energy at an affordable price based on the long-term management of natural resources and efficient energy use” (NORAD 2007:3). It is also intended to contribute to sustainable economic and social development in selected partner countries and to international efforts to reduce greenhouse gas emissions” (Ibid). The objective thus describes Norwegian aid’s intent to support the development of the electricity sector in partner countries when it comes from clean and renewable sources of energy such as hydropower, solar, and wind, among other.

²⁰ Department of Finances. “Statsbudget 2010”. Chapter 7.2: “Fokus på områder der Norge kan gjøre en forskjell”. Retrieved 5 October 2010. Own translation URL <http://www.statsbudsjettet.no/Statsbudsjettet-2010/Dokumenter/Fagdepartementenes-proposisjoner/Utenriksdepartementet-UD/Prop-1-S/36140/36147/>

²¹ Ibid. Chapter 7.1: “Globale utfordringer i kampen mot fattigdom”.

²² Department of Finances. “Statsbudget 2011”. Chapter 7.1: “Sikrer framtid, grønnere vekst”. Retrieved 3 May 2011. Own translation. URL <http://www.statsbudsjettet.no/Statsbudsjettet-2011/Dokumenter/Fagdepartementenes-proposisjoner/Utenriksdepartementet-UD/Prop-1-S/48306/48313/>

When it comes to sustainable economic and social development, the policy supports that sustainable poverty reduction can be achieved by private sector development, but reliable energy is required for this to happen. Yet, new energy installations should not contribute to worsening living conditions of communities or climate problem, thus energy sources projects that have minimal or zero greenhouse gasses will be favored by the CEfD. Finally, because energy infrastructure is costly and ODA alone cannot fund the energy needs of the South, partnerships with the private sector must be included in the agenda. Being said that Norwegian ODA will focus on programs where the country have expertise, the rationale for getting involved in clean energy activities can be explained in the light of the Norwegian Cleantech sector where the *know-how* of the industry can be exported as a mode of providing foreign aid.

Public Finance Mechanisms for CEfD

An important element of the program's strategy concentrates on bringing in private investors to co-invest in energy projects in the South. Something possible according market rules because the existing energy demand in developing countries can be commercially addressed, so as a result, Public Financial Mechanisms (PFMs) are brought into the scenario. A PFM is an instrument that uses public finance to stimulate private investments (NORAD 2010a:14).

To find private investors willing to co-invest in energy-related projects, the Norwegian Government has written a guide on how public institutions can scale efforts up through PFMs. The United Nations Environmental Program (UNEP), one of the international promoters of PFMs, notes that:

... in less mature financial markets, including most developing countries, public funding mechanisms are absolutely necessary, both to make up for a lack of private capital providers and to compensate for imperfect and evolving policy environments. Private investors seeing the commitment of national governments or multilateral institutions will then often follow suit and join a project or a nascent market, knowing that some of the early policy and commercial risks will be shared by other players. (UNEP 2008:19)

The rationale behind PFMs is that because developing countries have inefficient states and imperfect markets private actors are less willing to invest in high risk

markets, but if a public actor takes the initiative, then private actors are more likely to follow. Typical vehicles for supporting PFMs are public-private investment companies, carbon finance schemes, and guarantee instruments; however development funds, i.e. Norfund in Norway, are mostly popular (NORAD 2010a:16).

Operational Form

To mobilize private sector investments, the PFM need to estimate how much public money is necessary to leverage a desired amount of private money. Such estimations are not only simple ratio arithmetic but also imply a qualitative assessment of concrete cases. The leverage effect can be measured in two ways: direct leveraging effect and indirect leveraging effect (NORAD 2010a). The latter type refers to the work done by the World Bank as provider of demonstration effects and reform driver. Direct leveraging can be exemplified by the operations of Norfund, which provides risk capital, mitigates risks, and assists in resolving market's bottlenecks that hinder the provision of finances in developing countries. Norfund has a tradition of leveraging private sector investments in high risks markets, and in fact, Norfund is the most important Norwegian tool for achieving this task (Dalberg 2009). Emergent ODA policy shows a tendency towards market-driven approaches that intend to engage private sector in the delivery of public goods while public resources may enhance private sector interest to expand into new markets.

4.2 Towards a Realist Norwegian Foreign Aid

Norwegian foreign aid policy is in transformation. The formation of the Norwegian foreign aid policy goes back to 1960's and it was concerned with a humanitarian aid basis (Tvedt 2009). Then, the objectives and programs of foreign aid were autonomous from the Foreign Policy ones. International Relations literature considers that both policy sets are complementary; this places Norway in a *sui generi* position. Contrasted with other nation-states, Norwegian national interests did not play a role in laying the foundations of foreign aid policy, and that absence allowed Norwegian ODA to be justified under an

idealistic ethical basis. Tvedt defined this institutional form as the *Norwegian model*; an “optimal tool to achieve altruistic goals” in which various state actors interact for the provision of public goods (Tvedt 2009:42), and in this context aid related goods. Over time, Norway reflected two images in international fora – diplomatically talking- one created by the altruistic foreign aid discourse and the other developed by strategic handling of foreign affairs (Tvedt 2009). As issues concerning with the international profile of a state falls under the domain of Foreign Policy, (re)structuration was necessary. As a consequence, during the end of the 90’s a political maneuver set together the two policy areas that traditionally stayed separated.

4.2.1 *Global Realism*

The fusion of these two policy areas resulted, among others, from the need to present a national consistent discourse in the global fora. International practices of states create a situation that reflects cross-level interplay of factors. For Tvedt (2009), the subordination of Development Assistance to the MFA represented the emerging form of external politics in the globalization era where the general tendency is the reduction of boundaries between national and international politics. If this argument holds true, embedded neoliberalism processes in Norway are a reflection of the adaptation to global conditions. During the course of the last five years, political discourses have proliferated to elucidate the shape of this emergent operational model.

The debate about how globalization forces shape Norwegian politics has been active, however one discourse stands out. Current Norwegian Ministry of Foreign Affairs, Mr. Jonas Gahr Støre, published an article in the journal of Norwegian Foreign Affairs: “Samtiden” during the fall of 2010 that intended to defend the position of how globalizing forces have encouraged new questions and methods regarding the Norwegian role in the world (Støre 2010). For him, the contemporary orientation of foreign policy becomes informed by national interests and on priority areas in which the Norwegian contribution to the international society could have greater impact (Støre 2010). In his words:

Well long term prioritization in the foreign policy should be about having a direction to strengthen the economic, political and human resources. For me, the guiding way is to find an honest answer to the following two questions: 1) Is this important for Norwegian interests?; And, 2) Can Norway make a difference? Our goal is to manage our [Norwegian] resources towards strategic areas where the answer is yes to both questions. (Støre 2010:17).

Since the publication of the controversial article, a Norwegian *global realism* approach to the Foreign Policy can be visualized, as defined by Støre, who concentrated on explaining how Norwegian actions in the international arena are guided according to national priorities. On one hand, the selection of strategic areas where Norway can make a difference can be understood as a commitment to offer what Norway can do best, and therefore contribute to raising quality of global problem-solving. On the other hand, an increased focus on national interests might result in biased responses to the international society. On the basis of the Norwegian aid project, this *realist* tendency has informed new aid policies based on the combination of both Norwegian interests and capabilities. National policy formation is also influenced by the global agenda for aid provision that seems informed by a new coming paradigm, echoing the operational forms and goals of a more globalized context.

This organizational change has impacted ODA policies so that the surfacing frameworks go in line with Norwegian *national interests* instead of solely altruistic goals. This is pictured in recent ODA policies, the last two budgets, and in the studied policy program of the CEfD where the Norwegian expertise in renewable energies is key for answering the questions of Støre.

4.3 The Norwegian Cleantech Sector

Cleantech is a concept defining the economic sector that put together businesses that offer renewable energy and environmental technology services, products, and their respective value chains (Intpow 2011). The growth of this sector is responding to the increased demand for environmentally friendly solutions in the marketplace and the Norwegian tactic to reduce the country's economic

dependence on the Oil & Gas sector by structuring alternative competitive industries (Heide et al. 2002). In fact, this strategy fits in well with the proposed industrial policies of the competition state theory.

The Cleantech sector in Norway is organized in four categories: the renewable energy, environmental technology services, traditional environmental services, and power distribution and trading. The renewable energy category unites companies that have the experience to best utilize renewable forms of energy like the hydroelectric power, solar energy, wind energy, and bioenergy (Intpow 2011). While the renewable energy cluster comprises these various types of technology, attention is provided only to the hydroelectric segment for the purposes of this thesis.

4.3.1 Norwegian Hydropower, a History of Wealth Creation

Norway has harnessed the power of water for more than hundred years. Today, Norway is the world's sixth largest hydropower producer, has developed 70% of its total potential²³, and provides almost 98% of the national electricity²⁴. What is of greater value however, is that as of 2009 the sector registered 779 companies that provided 10 897 full-time jobs, an amount that increased 62% since 2003 (Intpow 2011). Employment is provided across the whole value chain where power producers and technology suppliers divide in the areas of planning, engineering, and construction (Ibid).

The relatively large size of the energy sector and the Norwegian tradition in hydropower have made possible to accumulate valuable expertise over time. The historical legacy of Norwegian hydropower technology is connected to the national pride because it has contributed to the development of Norwegian industry since 1850s²⁵. From early periods, Norwegian legislators anticipated the importance the resource and secured those benefits for the society at large. The political concept of "benefit sharing" assured local communities of the

²³ International Energy Agency. "Renewable Energy Essentials: Hydropower". Retrieved 20 March 2011. http://www.iea.org/papers/2010/Hydropower_Essentials.pdf

²⁴ Statistics Norway. "Energy". Retrieved 28 April 2011. Own translation. URL: <http://www.ssb.no/emner/01/03/10/energi/>

²⁵ Energifakta. "Vannkraft og elektrisitet i et historisk perspektiv". Retrieved 26 April 2011. Own translation. <http://www.energifakta.no/documents/Miljo%20og%20velferd/Samfunn/Historie.htm>

substantial economic benefits from hydropower development and indirectly of the gains for all local industries²⁶. Legal frameworks were also established to protect the environment and local communities, such as legislation regarding stakeholder consultations, licensing that includes conditions for environmental protection, and rules that lay the foundations for sound management of natural resources²⁷.

Historically, most of the hydropower companies in Norway have been utility-based companies publicly owned by the national government or by the municipalities. The companies have cared basically for providing home markets with electricity. As publicly owned companies their shareholders were mainly concerned with ‘having enough revenue’ to invest in other important public goods. Consequently, utility companies did not have incentives to go abroad because they were focused on covering the demands from their public shareholders (Hagen: interview 05.05.2011).

4.3.2 Value Creation in the Norwegian Hydropower Sector

In the last decade a revitalization of the Norwegian hydropower sector has been taking place after several decades of stagnation (Hagen, interview 05.05.2011). Climate change and global energy needs created the momentum for increasing the scope of Norwegian exports in hydropower services (Elsebutangen2010:10). The largest Norwegian hydropower producer, Statkraft, predicts a growth of the industry from projects in emerging markets due to swelling energy demands and the augmented willingness from global financial institutions to support renewable energy projects (Andresen²⁸2010:30)²⁹. Such projections encouraged the Norwegian Ministry of Petroleum and Energy to form a non-profit business organization that could assist companies interested in going abroad. The organization of Norwegian Renewable Energy Partners is known as Intpow, and

²⁶ Ministry of Petroleum and Energy. Speech: “Hydropower and Sustainable Development”. Retrieved 18 October 2010. http://www.regjeringen.no/nb/dep/oed/aktuelt/taler_artikler/politisk_ledelse/anita_utseth/2006/hydropower-and-sustainable-development-j.html?id=420736

²⁷ Ministry of Petroleum and Energy. Speech: “Hydropower and Sustainable Development”. 18 October 2010. http://www.regjeringen.no/nb/dep/oed/aktuelt/taler_artikler/politisk_ledelse/anita_utseth/2006/hydropower-and-sustainable-development-j.html?id=420736

²⁸ Øistein Andersen is SN Power Chief Executive. SN Power is the international branch of Statkraft.

²⁹ Geir Elsebutangen is Managing Director at Intpow.

is structured as a non-profit PPP between the Norwegian Renewable Industry and the Norwegian Government³⁰.

Intpow was established to “strengthen long-term value creation and employment in the Norwegian renewable energy industry through partnering and international expansion” (Brochure, courtesy Intpow). The main goal of the organization is to assist in the internationalization of the renewable energy sector. Having success in this task requires augmenting the volume of exports and companies abroad and improving the quality of exports (Hagen: interview 05.05.2011). To do that, Intpow’s strategy is to build and fortify the concept of a Norwegian hydropower cluster that can supply all kinds of services. In practice this signifies that hydropower-developer firms are willing to purchase supply products and services from their Norwegian counterparts (Hagen: interview 05.05.2011). This could only be secured through an operational form where the whole industry cluster is internationally active in value creation, in terms of quality exports, employment, and various source of revenues.

While a Cleantech sector in Norway is strengthened, most of the companies are still small- and medium-sized enterprises. To consider internationalization, regional hydropower companies with long traditions and financial maturity could meet the challenges of starting operations in foreign markets. However, the financial knowledge about market penetration and strategies on such markets are scarce, especially when it comes to developing countries who account for a fair portion of the total energy demands. Thus, industry leaders will require partners with unconventional commercial focus if the Norwegian hydropower industry is to become international and finally a competitive one for carrying the demands of the national economy.

4.4 CEfD - Realist and Market Driven

Globalization has challenged Norwegian policies and the growth of the national economy. Politically, Norwegian foreign policies –including foreign aid- are

³⁰ Intpow. “About us”.Retreived 1 May 2011. URL<http://intpow.no/index.php?categoryid=1>

structured towards the combination of national interests with the needs of the international society. Further, it is expected that foreign policy actions deliver results that help to strengthen the national resources. Economically talking, Norway's strategy seeks to enhance the competition of industrial sectors that could eventually make up for decreasing the income generated by the Oil & Gas sector. The Norwegian hydropower industry outstands internationally for its technical capabilities and expertise. Additionally the background of the industry, based on public ownership and social-orientation, makes it an attractive sector for Norwegian foreign aid policy. This industrial sector has competence on a renewable energy type, the habit of operating under clear social and environmental rules and it possess capital for investments.

In the light of this chapter, the CEfD program has double strategy. In one hand, it has created a political platform to justify the assistance to the Norwegian hydropower sector in its internationalization endeavor. In the other, the CEfD puts the climate change problem in the center of the political agenda. Climate change demands quick solutions, among others, helping developing countries to increase their energy production from non-polluting sources. But as such countries often give priority to economic growth rather than to the global environment, incentives can be solution. The CEfD's incentive for augmenting the renewable energy production in the South is given to Norwegian companies through PFM so that firms have a financial back-up against market's risks. This example proves the emergence of a competition state in Norway, reflected in its international sphere. Foreign aid is provided through market-driven policies, instruments and institutions which have a double strategy: to serve the equity and the efficiency tasks of the state at the same time.

5. Norfund - Development Finances

In the previous chapter I described and analyzed the reasons for establishing Norfund as PFM for the CEfD. I also argued that the CEfD program has a connection with Norwegian interests in the internationalization of its energy sector, specially the hydropower cluster. In this chapter I contextualize Norfund as a benchmark institution for partnering with private actors looking for new markets. I also start developing the research question into operational analysis on what constitutes public finances to private sector, in other words how a Development Finance Institution (DFIs) operates, and how the political institution pursues a developmental public mission by operating under financial rules. In this chapter I also provide a detailed explanation of Norfund, their strategy, and operational routines. In studying Norfund in detail, it is possible to see a clear reflection of how Norwegian realist policies combine altruistic goals with other national interests.

5.1 Development Finance Institutions

Since Bretton Woods, International Finance Institutions (IFIs) have been important actors in financing development projects in poor countries. They are represented by the Multilateral Development Banks (MDBs), World Bank (WB), and the International Finance Corporation (IFC) – the World Bank’s private arm. Nationally owned DFIs also emerged during the 1960’s and 70’s, and are publicly mandated bilateral institutions designed to provide long-term financing to private sector activities which have specific value-added international development objectives (Dalberg 2009:8). Differing from the international counterparts, DFIs’ strategy mobilize private investors and co-operate with them to optimize their capability to deliver development-sound impacts needed to improve social and economic conditions in developing countries. Consequently, one can say that DFIs complement MDBs, which mostly loans to public actors, and together they represent contemporary IFIs.

In Norway, the national DFI is the Norwegian Investment Fund for Developing Countries (Norfund), which has operated since 1997. The emergence of Norfund is the result of increased popularity of *market-driven* policies and instruments in Norwegian political circles. The materialization of the CEfD has implications for Norfund because the operations of the fund can be increased by serving as PFMs the foreign aid program. In 2011, the fund received extra budget allocations and the responsibility to channel ODA funds to clean energy projects mixed with development-related goals.

5.2 The Norwegian Development Fund

Norfund was established by the Norwegian Storting's "Act relating to Norfund," Act No. 26, 9 May 1997, and was mandated the fund to "establish viable, profitable enterprises that would not otherwise have been established because of high risk³¹". Furthermore, the fund was invested with a development-policy mandate by the Norwegian government³², which meant that Norfund should advance ODA's goals. These twofold tasks resulted in a double mandate, one of development financier and other of realizing development goals. If an analogy is made with the two main tasks of a state, Norfund is invested with both the efficiency and the equity tasks. As a public finance institution, "Norfund is owned by the Norwegian Government through the Ministry of Foreign Affairs, and the Norwegian Parliament (Storting) allocates annual capital grants through the development assistance budget³³". Public ownership requires that the fund fulfill the assigned mandate and reports to the respecting owner – the MFA.

Norfund also defines itself as a "state-owned company with limited liability", which is why Norfund operates under commercial settings (Vilsted, interview 18.04.2011). Contrasted to traditional public institutions, this legal feature reduces possible political interference in the fund. Institutional theory supports that entities concerned with the goal of profit seeking or economic value ought to

³¹Norfund. "Mandate". Retrieved 22 September 2010.

http://norfund.no/index.php?option=com_content&view=category&layout=blog&id=78&Itemid=252&lang=en

³² Ibid

³³ Norfund. "About Norfund". Retrieved 20 October 2010.

http://norfund.no/index.php?option=com_content&view=category&layout=blog&id=76&Itemid=234&lang=en

be studied as “organizations” because they do not respond to the task of increasing public goods (Scott 2008:19-46). Despite of this dichotomy, this thesis approaches Norfund as a public *institution* given its public mission characteristic.

5.2.1 Preferred Investment Partner in Developing Countries

Norfund is also a benchmark institution for investments in developing countries (Norfund 2002:15). Norfund wants to attract industrial parties who lack the experience in dealing with legal, economic and cultural challenges that are present in those emerging markets (Ibid).

An important objective for Norfund is to stimulate Norwegian companies’ investments in developing countries. Due to its internal competencies and an external network of experience from business operations, Norfund is a partner that makes projects possible where Norwegian companies would otherwise tend to be reluctant. (Norfund, 2002:15)

To date, Norfund’s partners have several nationalities, but cooperation with Norwegian industries is desired when specific expertise is required in the markets where the fund invests (Vilsted, interview 18.04.2011). In this way, synergies from a partnership can be exploited to provide developing countries with a needed good or service. In the light of the CEfD, companies in the Norwegian hydropower cluster would be attractive partners.

The task of leveraging Norwegian investments in developing countries is realized in cooperation with other national institutions for export advising such as Giek, Innovasjon Norge, Veiledningskontoret. The previous explanation illuminates Norfund’s rationale for partnering with Norwegian private actors in line with realist assumptions that inform Norwegian foreign policy. From this perspective, it can be said that Norfund assists Norwegian companies to penetrate and operate in new markets. Hence, the representations of competition state practices are reflected in its operational model.

5.3 Strategy

Norfund’s strategy consists of facilitating profitable business activities in poor countries. To materialize this, Norfund focuses on building up investment

expertise, dismantling the barriers to private investments, and providing risk capital to companies interested in operating in Norfund's eligible countries³⁴. In fact, the success of Norfund relies on the expertise that the institution has of each particular market. Given that building up investment expertise is resource demanding, Norfund carefully selected markets that have the hardest time attracting private capital (Frengstad T, interview 15.04.2011). The fund's strategic geographical clusters are several less developed countries (LDCs) in East and Southern African, Central America, and the Mekong Area in Asia³⁵. In addition, Norfund concentrates efforts in the renewable energy and the finance sector because they have great potential for starting lucrative projects and a facility to start partnerships with private actors. In short, Norfund aims at increasing the private sector in partner developing countries by attracting private firms in economic sectors that the institution considers financially-sound.

5.3.1 A Strategy for Development?

Some theorists view economic growth and increases in economic wealth as the key definition of 'development'. (Willis 2005:200)

An analysis of Norfund's strategy permits to identify the *efficiency* goals of the institution which aim at removing markets' constraints to forge economic progress. Even if *equity* goals are less straightforward in this strategy; for the fund, the financial success of an investment itself provides a number of effects which are connected to the overall goals of Norwegian foreign aid policy.

Norfund believes in the premise that increased commercial activities are good in [underdeveloped] countries...if you create one successful enterprise that [can] have positive effects in its local community. (Vilsted, interview 18.04.2011)

This mindset is based on the idea that strengthening a country's economy, by creating firms, will produce *trickledown-effects*³⁶. Thus, for the institution the

³⁴ Norfund. "Strategy". Retrieved 3 April 2011.

http://norfund.no/index.php?option=com_content&view=category&layout=blog&id=79&Itemid=253&lang=en

³⁵ Ibid

³⁶ *Trickledown-effects* is a concept in economics that refers to the spill-overs that company produce in the overall economy of a country given that companies' profits will trickle down to lower income individuals and to the rest of the economy. Recent scholarship proposes that companies will produce positive effects in local communities where they operate. Examples: job creation, improving supply chains and infrastructure, by educating the work force and by bringing products to markets (Welle-Strand et al. 2009:29). Despite of the popularity of the concept among economic

concept of ‘development’ is grounded in the market’s capacity to indirectly provide equity tasks.

The concept of ‘development’ has a plurality of meanings according to diverse theories, ideas and aspirations (Willis 2005; Allen and Thomas 2000). Norfund’s understanding of ‘development’ is grounded on the “dynamics of capitalist growth”. It considers that market efficiency is the best way to ensure growth which ultimate benefit society at large (Allen and Thomas 2000:37). From this standpoint, enhancing the equity capacity of the market requires an active private sector. Norfund contributes to increase the private sector interest in welfare tasks by being *catalytic* and *additional*³⁷. The former signifies that Norfund is willing to be a first mover in high risk markets, so that private partners are willing to enter underdeveloped markets. The latter justifies Norfund’s expertise on identifying and structuring sustainable projects in risky markets; where sustainable refers to the equity aspects of its mission.

5.4 How Can Investments Enhance Development?

Norfund is concerned with *development finance*, which defines financial flows into development-sound projects which operate on the basis of commercial profitability (Hoffmann 1998). In achieving this task, profitability and sustainability are elements that help to define how public finances given in the form of investments to private sector can enhance ‘development’.

Profitability

It is the ability of a company to generate earnings. Norfund assists companies to maintain their profitability over time, so that healthy operations of a company can be almost guaranteed (Frengstad T, interview 15.04.2011). On one side, this element makes DFIs different to traditional aid institutions. On the other, DFIs are unlike to commercial investors because they are willing to accept lower rates of returns and to invest in high-risk environments. Musasike (2004) explains that

and business related disciplines, the trickle down effects are not always reflected in lower income spheres but rather the benefits are seen mostly by rich and wealthiest people of a society; therefore trickledown effects alone cannot be used as poverty reduction strategies (Basu and Mallick 2007; Schiffrin and Bisat 2004; Fan, Zhang and Zhang 2002)

³⁷ Concepts of *Catalytic* and *Additional* in development finances are further elaborated by Dalberg (2009).

DFIs appetite for high-risk opportunities is actually due to their understanding of how investments benefit poor and unrated clients.

Sustainability

Sustainability is related to assuring the provision of positive externalities resulting from private sector development, and is concerned with mitigating potential risks related to an industrial activity.

A sustainable business means that a company could provide jobs with stable incomes, create extra activities for local suppliers, and pay taxes to the government, which could be used to generate public goods. Additionally, it assures that the activities of a company do not impose risks on surrounding population and environment. (Frengstad T, interview 15.04.2011)

To achieve those elements in their investments, Norfund seeks to act as a *responsible investor* by establishing guidelines and the commitments that the organization has decided to undertake in order to secure good practices.

5.4.2 Responsible Investment

The investment code defines principles and management systems for sustainable and responsible investment with respect to the environmental, social, and governance (ESG) matters (Norfund 2007:1). The guidelines for responsible investment practices state that Norfund and its partners have to act accordingly to national legislations, Norfund's guidelines on anti-corruption, IFC's environmental and social standards, as well as IFC's guidelines for health, environment and safety (HES). As a general rule, mutual agreement on the implementation of good corporate practices and the application of ESG standards constitute a good foundation for co-operating with selected partners³⁸.

Norfund's code is compatible with the Rome Consensus³⁹, an agreement that the European network of DFIs (EDFIs) have signed in order to harmonize ESG policies of development financiers (Rixen, E-mail 13.01.2011). This group of practices serves to improve performance, accesses new capital, and contributes to

³⁸ Norfund. "Norfund as Responsible Investor". Retrieved 4 February 2011.

http://norfund.no/index.php?option=com_content&view=category&layout=blog&id=86&Itemid=233&lang=en

³⁹ EDFI. "Press Released: EDFIs Sign Principles of Responsible Financing (7 May 2008)". Retrieved 6 November 2010. <http://www.edfi.be/component/downloads/downloads/25.html>

stakeholder relations. In emerging markets, this soft regulation structure encourages the establishment of integral capital markets, reduction of investment's risks, prevention of reputation risk, and the possibility to add value to the investment (Norfund 2007). This operational form reflects a depoliticized sustainability discourse in which “sustainable development” is a matter of implementing good management practices in sound business decisions (Bøås 2002, Wright 2006). Subsequently, a short introduction of Norfund's good practice guidelines will be presented.

The IFC's Health, Environment and Safety (HES) Guidelines

This set of technical guidelines provides information about how to attain safe and healthy working conditions for employees and the contractors or sub-contractor of an enterprise. It also describes safeguards for those affected by business' operations⁴⁰.

Norfund Guidelines on Anticorruption

The policy against corruption is devoted to the promotion of integrity, transparency, and accountability through all investments. The guidelines set requirements for risk assessments for partners, countries, projects, and companies throughout the whole investment cycle. It stipulates rules and consequences for non-compliance or breach of good practice policies (Norfund 2007b).

Policy for Environmental and Social Conditions

Within this policy framework, Norfund supports that its investments are to contribute to *sustainable development* (Norfund 2010:14). This concept “means balancing economic, social and environmental conditions” (Riksrevisjonen 2007:67). The IFC's Policy and Performance Standards on Social and Environmental Sustainability (IFC-PS) establish instructions that help companies to manage and improve their social and environmental routines through result-based approaches and their respective monitoring processes (IFC 2006). The IFC-PS are eight main areas (Chart 2) based on the “do not harm” rationale, in

⁴⁰ IFC. “Environmental, Health and Safety Guidelines”. Retrieved 15 March 2011.
[http://www.ifc.org/ifcext/sustainability.nsf/AttachmentsByTitle/gui_EHSGuidelines2007_GeneralEHS/\\$FILE/Final+-+General+EHS+Guidelines.pdf](http://www.ifc.org/ifcext/sustainability.nsf/AttachmentsByTitle/gui_EHSGuidelines2007_GeneralEHS/$FILE/Final+-+General+EHS+Guidelines.pdf)

which mitigation or compensation should be provided if negative impacts are unavoidable.

Chart 2: The IFC Performance Standards

PS 1: Social and Environmental Assessment and Management System
PS 2: Labor and Working Conditions
PS 3: Pollution Prevention and Abatement
PS 4: Community Health, Safety and Security
PS 5: Land Acquisition and Involuntary Resettlement
PS 6: Biodiversity Conservation and Sustainable Natural Resource Management
PS 7: Indigenous Peoples
PS 8: Cultural Heritage

Source: Policy and Performance Standards on Social and Environmental Sustainability (IFC 2006)

The policies of IFC-PS engage private actors in respecting Human Rights, consulting local populations, and promoting corporate social responsibility (CSR) practices. The standards explain the conception of appropriated behavior or action. In the context of Norfund's sustainable guidelines, they define, regulate, and legitimate specific rules that invest actors with norm-following responsibilities. The institutionalization of *soft* norms by Norfund responds to their governance task, and the institution's concerns with the steering of actors towards collective goals.

5.5 Portfolio

The capitalization of the fund is provided by the Norwegian government. Annual refurbishments of NOK 500 millions are given, in addition to the initial share capital (NORAD 2010c:67). At the end of 2010, the capital base of Norfund was accounted for NOK 5,8 billion⁴¹, however, this amount increased with the extra allocation that the fund received in 2011 for clean energy investments. Despite of its young age, Norfund is now positioned as the largest development fund in the Nordic countries (Ibid), is primarily an equity investor. This implies that it invests directly in specific companies or through other funds. The operations are organized into four type of investments: Financial Institutions, SME (Small and

⁴¹ Norfund. "Portfolio". Retrieved 20 May, 2011.

http://norfund.no/index.php?option=com_content&view=category&layout=blog&id=93&Itemid=229&lang=en

Medium Enterprises) Funds, Renewable Energy and Industrial Partnerships. As this thesis is concerned with an investment in the Renewable Energy sector, only that segment of the portfolio is presented.

5.5.1 Renewable Energy in Portfolio

Renewable Energy investments represent 44% of Norfund's total invested portfolio per 2009⁴², with the committed investments in this area accounting for NOK 2,349 billions. The portfolio is distributed geographically in this manner: 7% of this has gone to Africa, 34% to Asia, and 59% to Latin America (Norfund 2010:30). The rationale behind this commitment is similar to the idea behind the CEfD Initiative. Energy is requisite for development and so a "reliable power supply is a prerequisite for establishing and developing the manufacturing and commercial sectors"⁴³ with electricity also playing an important role in increasing the supply of health services and education. Hence, this portfolio area has implicit social goals like health, energy access, and poverty reduction, as well as environmental goals such as reduction of emissions. So, one can say that the strategic focus of the renewable energy portfolio makes Norfund an attractive PFM for the CEfD initiative.

The strategy of the fund is to leverage partnerships in order to deliver clean energy in developing countries (Norfund 2010:30). By mid-2011, twenty one projects had been directly financed by the fund (Davis, interview 18.04.2011) Norfund). The biggest partner of the fund is the Norwegian SN Power, but other partnerships exist with TrønderEnergi, E+Co and ToughStuff⁴⁴.

5.6 Operations: Investments Routines

Norfund, like other aid assistance agencies, aims at achieving Norwegian Development Assistance's goals. However, the operational form of Norfund differs substantially from typical bilateral aid agencies. First, Norfund as an

⁴² Norfund. "Portfolio". See details in Chart: Committed portfolio by investment area. Retrieved 15 April 2011. http://norfund.no/index.php?option=com_content&view=category&layout=blog&id=93&Itemid=229&lang=en

⁴³ Norfund. "Renewable Energy". Retrieved 8 August 2010.

http://norfund.no/index.php?option=com_content&view=category&layout=blog&id=97&Itemid=265&lang=en

⁴⁴ Ibid. Retrieved 15 May 2011.

institution for *market-driven aid* allocates economic resources into projects or enterprises that generate profitability and that boost private sector in developing countries. Second, Norfund co-invests with market actors, like enterprises, which leads to the use of private finances in aid-related projects or to the use of public funds in subsidizing private activities or specific companies. Third, DFIs are managed with a business-related focus, in this case, as an investment fund. This section aims to describe the operational structure that Norfund works under. Knowledge of such processes is vital for understanding how Norfund materializes developmentally-sound goals through applying the market-driven methods of financial investments.

5.6.1 Life of an Investment

Norfund basically operates according to the routines described in the Norfund's investment manual (Vilsted, interview 18.04.2011). The manual describes the processes that take place in each phase of the "life of a Norfund's investment". The four phases illustrate the cycle that investments go through from identification of potential projects until the exit of the fund (Diagram 3).

Diagram 3: Norfund Life of an Investment



Source: Norfund Report on Operations 2010:14.

Identify potential projects

The aim of this initial phase is to identify projects and that they comply with Norfund's investment criteria. Therefore, preliminary assessment is done focusing on the project's development impact and potential risks to environment, social aspects, corporate governance and corruption. Also, the business idea and profitability are considered.

The decision making process is initiated by an investment manager who screens proposals. Then clearance in principal is done by the Investment Committee which also provides the final approval after the potential for development effects and additionality have been valuated. (Vilsted, interview 18.04.2011)

If a project is found to be viable, a strategy for the ownership exercise is outlined.

Invest

Due diligence for investing is made in order to secure favorable terms for the investment. Due diligence is an investigation of a business or person prior to signing a contract. It considers economic, legal, social, environmental and potential corruption aspects of an investment plan. The disbursement then takes place.

Own

This process takes place when Norfund makes equity investments, so that they have the right to be a member of the company's board. The exercise of ownership refers to following of the project or company at all times, allowing Norfund proximity to the progress of a project. In this way, Norfund can secure that the practice of corporate governance goes according to Norfund's ESG guidelines. The fund explains that compliance with standards does not happen overnight, underscoring the importance of being a long-term investor (Vilsted, interview 18.04.2011).

Exit

In this phase an evaluation of the achievements is completed. The market value of the company is calculated so that it can be sold to potential buyers and an assessment about the most profitable exit is undertaken⁴⁵.

5.7 The Norfund Grant Facility

Additional to the investments, Norfund has a Grant Facility. The objective of the facility is to enhance sustainability and positive development effects of Norfund's current and potential investments (Fregnstad T, interview 15.04.2011). The Facility is grounded on the rationale of providing professional and technical assistance, beyond what is expected from a private investor, so that invested companies can increase their responsible practices and development effects.

⁴⁵ The detailed description of Norfund's life an investment was possible thanks to the contributions of Petter Vilsted from Norfund, interviewed on 18.04.2011.

The grant provides three types of soft loans. The first category finances loans for pre-feasibility studies that could not be realized otherwise, due to market barriers. Potential clean energy projects are assisted in progressing through this type of grant, and if the project materializes, the grant has to be paid back (Frengstad T, interview 15.04.2011). The second type funds programs to increase enterprise capacity in terms of ESG issues. The last type supports broader CSR initiatives initiated by the company that have as their major focus the well-being of the local community, employees and their families, and other parties affected by the company's operations⁴⁶. Examples of CSR are contributions to healthcare, education, audits, etc. Through such examples, the fund argues its contribution to enhancement of the development-related outcomes of Norfund's investments.

5.8 Evaluation

Evaluations are important tools to assess what economic and development goals were achieved by an investment (Vilsted, interview 18.04.2011). Norfund has developed an *ex post* assessment system to measure indicators of development impacts in their four areas of investments. While the generic indicators collect data about amount of jobs, female employees, and tax contribution, the energy related investments account for the capacity of power plant (in terms of MW and GWh), capacity/average consumption per inhabitant, and amount of reduction of greenhouse gases⁴⁷. The data collected for evaluation purposes is publicized on the fund's Annual Report (Riksrevisjon 2007:68). For internal purposes at the project level, it is required to document a *triple bottom line*⁴⁸ report that informs about the application of ESG guidelines (Vilsted, interview 18.04.2011).

⁴⁶ Norfund. "Norfund Grant Facility". Retrieved 3 March 2011.

http://norfund.no/index.php?option=com_content&view=category&layout=blog&id=91&Itemid=248&lang=en

⁴⁷ Norfund. "Development Effects". Retrieved 26 February 2011.

http://norfund.no/index.php?option=com_content&view=category&layout=blog&id=114&Itemid=250&lang=en

⁴⁸ *Triple Bottom Line* is a concept that captures three types of values or criteria for measuring organizational success in terms of economical, environmental and social results. Its main proponent is John Elkington (1997) but the concept became popular together with the concept of Corporate Social Responsibility and the ratification of United Nations Convention on Sustainability (The Brundtland Commission).

Compared with other EDFIs, the assessment system of Norfund is rather general (Bracking and Ganho 2011). Counterpart development funds, like IFU/IØ Denmark, DEG Germany, FMO Netherlands, have effectiveness frameworks that rate the collected results such as the. However, this is not the case of Norfund. The Norwegian fund does not conduct formal *ex ante* assessments that adhere to predetermined goals or benchmarks, because they are not strictly formulated in the first place.

In the aid world it is said that you should have a clear goal and to measure whether results were met. Norfund does not set targets so we cannot measure the success of the project against expected goals. We capture real data from our investments with the help of invested companies or through in-depth studies. (Vilsted, interview 18.04.2011)

Norfund believes that through its narrowed down strategy and responsible investment operations, they can produce long-term development effects as explained in detail in the section 5.3 on Norfund's strategy.

5.9 Concluding Remarks

In this chapter I have presented Norfund's mission and operational form together with the fund's own understanding of them. Norfund's operation style relates to banking. Moreover, the fund differs with traditional banks to the extend they have clear guides for environmental, social and governance aspects of investments, so that the fund can operate on an ethically or responsible manner. This has value, in the light of development finances, because the fund can play a protectionist or guarantor role of the local communities and environment in developing markets to some extend; task which is less inherent in conventional banking. An important aspect to highlight is that the double role of Norfund goes in line with theory of a competition state where the welfare goals are organized in two main groups, the equity and efficiency tasks. According to Norfund's strategy, it seems that both equity and efficiency goal go hand in hand. In other words, the market can enhance welfare. It remains to assess whether this holds true. Operational form of Norfund to partner with the private sector proves the existence of 'competitive' approaches in Norwegian institutions.

6. Public Finances to Private sector– The case of Norfund in Bugoye

In the previous chapters I have explained how Norfund operates in the context of Norwegian foreign aid and specifically as PFM for the CEfD program. In this chapter I explore how Norfund functions in a particular intervention within its clean energy portfolio. This chapter constitutes the most narrowed part of the case study and it should contribute to exemplify how the institution collaborates with private actors in a concrete investment. The study of this intervention should allow in detail contextualizing the research question regarding do public finances or PFMs to the private sector promote the goals of Norwegian foreign aid– namely ‘development’.

What is the Intervention?

The concrete case to study is the investment realized by Norfund with the Norwegian regional company TrønderEnergi AS to create the firm Trønder Power Ltd which was commissioned with the construction of a 13 MW hydropower plant in Uganda.

6.2 Uganda, Country Profile

Uganda is an African land-locked country gifted with fresh water resources from the Nile River and Lake Victoria. Ugandan population is estimated as 32.9 million people⁴⁹, and is principally rural, with women constituting majority in most areas. Ever since the, now former President, Mr. Yoweri Museveni took political power in a coup in 1986, the country has achieved significant improvements in the political, economic and civil structure. Uganda has been one of the few successful stories of robust economic improvement in Africa. Regardless of slower economic growth in the of the 90’s; during the last decade, the country has experienced robust rates of growth, averaging 7% GDP per capita thanks to consolidation of the export sector (fish, flowers and coffee), the

⁴⁹ World Bank,. “Country profile Uganda”. Retrieved 3 May 2011.

<http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/AFRICAEXT/UGANDAEXTN/0,,menuPK:374871~pagePK:141159~piPK:141110~theSitePK:374864,00.html>

recently discovered oil, the increase of foreign direct investment, and to macroeconomic and pro-private sector oriented reforms undertaken during the eighties⁵⁰. Economic growth is constrained by the improvement of public financial management, strengthening of financial markets, and inadequate infrastructure (NORAD 2001), especially in the energy sector (Byakola 2007).

Significant economic growth has not been reflected in poverty reduction. The country is ranked on the 143rd position of 169 countries on the UNDP Human Development Index⁵¹. In 2009, twenty five per cent of the country lived in poverty but this number has halved compared with 1992 rates⁵². While the country has advanced significantly towards the Millennium Development Goals of universal primary education, gender parity, and combating HIV/AIDS; other goals remain a challenge i.e. completion of primary education, child and maternal mortality, access to reproductive health, incidence of malaria and other diseases⁵³. The current social situation difficult Uganda's aspiration to become a middle-income country during coming years and it undermines Uganda's image as a 'capitalist development' model in Africa. Something that cannot be improved without overcoming a major vulnerability, the high corrupt public sector which fails to deliver *equity* goals, i.e. education, health, rights protection.

6.2.1 Ugandan Energy Sector

The Ugandan state has potential to foster a model of environmentally friendly growth within its capitalistic approach given the richness of its natural and energy resources (water, oil, sunshine, and forests). However this has not been the case yet. The energy sector relies vastly on biomass and on costly import of oil which account for environmental damages such as deforestation and greenhouse gasses. Besides, those energy sources do not have capacity to supply an increasing demand of a rapid growing economy. To date, less than ten per

⁵⁰ Ibid

⁵¹ UNDP. "Human Development Indicators – Uganda, based on 2010 Report". Retrieved on 5 May 2011.
<http://hdrstats.undp.org/en/countries/profiles/UGA.html>

⁵² World Bank. "Uganda Country Brief". Retrieved 3 May 2011.
<http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/AFRICAEXT/UGANDAEXTN/0,,menuPK:374947~pagePK:141132~piPK:141107~theSitePK:374864,00.html>

⁵³ Ibid

cent of the population is supplied by the national grid, which does not reach rural areas, and power tariff remain the highest in the region (Kålsås et al. 2011:15). Given the energy constraints of the country; the 2002 National Energy Policy aspires to improve energy production and access from petroleum, atomic energy and renewable sources. Its main policy goal is to, “meet the energy needs of the Ugandan population for social and economic development in an environmentally sustainable manner⁵⁴”. This indicates the political interest on expanding the energy sector by taking some environmental considerations.

In 2007 the government of Uganda launched its Renewable Energy Policy, having an overall goal to “increase the use of modern renewable energy, from the current 4% to 61% of the total energy consumption by the year 2017⁵⁵”. The policy stress the use of solar, bio fuel and bio mass technologies; but the country has so far put much effort into hydropower given its lower costs and other related benefits, like, improvement of air quality and livelihoods of surrounding villages. Construction of major projects are under way, i.e. Bujagali (250 MW), Karuma falls (700 MW) and Ayago (500MW). Smaller projects have also been considered. The Electricity Regulatory Authority (ERA) listed, at least, forty six potential project sites⁵⁶. To access projects, there is an institutional framework in place that joints several authorities: ERA is responsible for processing applications and issuing permits and licenses; the National Environmental Management Agency (NEMA) awards environmental clearances and reviews EIAs; and the Water Resources Management Department (WRMD) awards surface water and construction permits. To build a small hydropower system, private companies must apply for various permits before starting construction.

6.2.2 Uganda-Norway Relationships

Diplomatic relations between Norway and Uganda were established in 1964, been Uganda one of the first main partners for Norwegian foreign aid. After a

⁵⁴ Rural Electrification Agency, Uganda. “Energy Policy for Uganda 2002”. Retrieved 15 March 2011.
<http://www.rea.or.ug/userfiles/EnergyPolicy%5B1%5D.pdf>

⁵⁵ Rural Electrification Agency, Uganda. “The Renewable Energy Policy 2007”. Retrieved 10 March 2011.
<http://www.rea.or.ug/userfiles/RENEWABLE%20ENERGY%20POLIC9-11-07.pdf>

⁵⁶ Electricity Regulatory Authority. “Small Hydropower Development in Uganda, 2007”. Retrieved 27 April 2011.
<http://www.era.or.ug/Pdf/ERA%20Small%20hydro%20power%20book.pdf>

cessation in diplomatic relations during Idi Amin's rule, they were re-established in the latter half of 1980. Since the 90's, Norway has increasingly committed resources to support Uganda in terms of economic development and trade, emergency relief, environment and energy, good governance, health-education-social sector areas, and HIV/AIDS (Annex 8). During the 90's, NORAD has spent at least NOK 400 million in electricity assistance to Uganda (Mæstad 2003:1). In that period most of the allocation was used to co-finance hydropower projects for improving the physical infrastructure of the country and to support institutional capacity building. The following decade started with low expenditures on energy infrastructure but it reached a peak in 2009 with NOK 101 millions (Annex 8). Norway has historically showed a commitment to advance energy infrastructure projects in its Energy and Environmental portfolio. As of 2006, Norway launched a strategy for environment in foreign aid based on national priorities, coordination with other donors, and provision of Norwegian value added support in areas like energy (MFA 2006). A key element of this structure is the mobilization of commercial investments and capacity building for energy infrastructure. Since then, Norwegian state actors and firms have been active in the Ugandan hydropower, oil & gas, and bio energy sector. Examples of the former are: Royal Norwegian Embassy in Kampala, NORAD, Norfund and Giek. And representing Norwegian firms TrønderEnergi, Norplan, Jacobsen Electro, Green Resources (Kålsås et al. 2011:15). Among the most commonly known projects is the Bugoye power plant, resulted from the Public-Private-Partnership TrønderEnergi - Norfund.

6.3 TrønderEnergi, the private actor

TrønderEnergi AS (TE) is a regional Norwegian utility group with headquarters in Trondheim, Norway. The identity of the Group is given by the vision "Powerful and energetic. Building a better society through clean energy and industrial development"⁵⁷. The company is publicly owned by 22 municipalities

⁵⁷ Presentation by Bernhard Kvaal from TrønderEnergi at the conference "Energibistand og forretningsmuligheter i Afrika" 11.11.2010 at Håndverken. Permission obtained through E-mail conversations on 8.04.2011.

in the Sør-Trondelag (Norwegian region) and by the company Normøre Energiverk AS. The business group is organized into 12 subsidiaries operating in the hydropower, wind, and energy distribution sector. Trønder Power Ltd. (TPL), established in Uganda, is the first international subsidiary of the group and is co-owned with Norfund⁵⁸ through a PPP.

During 2008, the group worked widely to develop a business strategy in which the international expansion of the group's activities is an important element. In line with this strategy, the board of directors defined ethical guidelines to be used in the activities of the whole group, especially in international operations. The guidelines were established according to the 10 principles of the United Nations Global Compact⁵⁹, and it is expected they will direct the business' foreign operations, covering human rights, labor, and environmental issues⁶⁰.

TE's motivation for starting operations in Uganda was because they saw an opportunity that could not be rejected. The project sounded profitable despite of the risks and the Norwegian government had demonstrated support to it, something important for an inexperienced company in transnational operations.

We also saw a very positive attitude from the Government of Norway, and got strong cement to support this project. We had the Government of Norway behind us through Norfund, the Embassy in Kampala and the Ministry of Foreign Affairs which were very eager to support and help. (Værnes, interview 21.10.2010)

At the time, the opportunity was seen as a "reputation project" (Malmo, conference 27.10.2010) in which the power company could exploit its core activity and to contribute with something to benefit Uganda: clean power production and, to some extent, poverty reduction⁶¹. TE abroad first consolidated activity in the company TPL, which is responsible for building and operating the Bugoye hydropower plant.

⁵⁸ Facts about TrønderEnergi. Accessed on 2 April 2011. <http://www.tronderenergi.no/english.aspx>

⁵⁹ The United Nations Global Compact is an initiative to encourage business on a global base to adopt sustainable and socially responsible policies and to report on the implementation of such policies given by 10 principles in the areas of Human Rights, Labor, Environment and Anti-Corruption. UN Global Compact. "About Us 10 Principles". Retrieved 4 March 2011. <http://www.unglobalcompact.org/AboutTheGC/TheTenPrinciples/index.html>

⁶⁰ Message from CEO Rune Malmo. Accessed on 2 April 2011. <http://www.tronderenergi.no/message.aspx>

⁶¹ Presentation by Bernhard Kvaal from TrønderEnergi at the conference "Energibistand og forretningsmuligheter i Afrika" 11.11.2010 at Håndverkeren. Permission obtained through E-mail conversations on 8.04.2011.

6.4 Hydropower Plant in Bugoye

Bugoye is a district situated in Western Uganda, close to the city of Kasese, in the Mubuku Valley. It shelters rural people, whose main subsistence comes from the fertile land and water which is readily accessible to most parts of the valley, and who cook with firewood found nearby (Pritchard, interview 7.04.2011). TPL is the only private operator in the Bugoye district; on the same river system are two other hydropower plants, Mubuku 1 and Mubuku 3, which are owned by the state-owned mining companies Kilembe Mines (Værnes, interview 21.10.2010). The local communities live on a traditional way and foreigners are symbols of “money and progress” (Sylvian, interview 14.04.2011). The central government of Uganda expected to obtain, from the foreigner company, kilowatts for its national grid. But local people did not know how the power project would benefit them as rural electrification was not part of the agreement between Ugandan government and TPL.

When Norfund and TE had agreed to build the hydropower plant (HPP) in Bugoye, the objective of the project delineated a contribution to Ugandan efforts to supply the country with nature friendly and reasonably priced electricity.

The primary objective of the project is to supply affordable electricity and contribute to environmental and economical sustainability for the population of Uganda. (Document Courtesy TrønderEnergi)

This goal has two inherent aspects: the *efficiency* task of creating cost-effectiveness in a power plant; and the *equity* task concerning environmental protection for current and future citizens. This two-fold goal reflects the double mission of Norfund in this specific intervention.

6.4.1 The Project

This section explains all the processes required to bring about the Bugoye HPP. The explanation is structured according to the “hydropower project life cycle”⁶²,

⁶² Many thanks to Anders Søreide, consultant and Manager at Vattenfall Power Consultant, who dedicated time to explain me all the processes required to build a hydropower project. Value free information was received given that this company was not involved in the studied project.

process commonly used in engineering planning. Simultaneously, I portray the role of Norfund in maturing the project financially.

To deliver a hydropower plant, financial and technical elements are organized in the form of a project. The ‘project phases’ define moments that allow to take important decisions about how to proceed and whether to continue with a project or not, by considering financial and technical risks (Søreide, interview 5.05.2011).

Diagram 4: Hydropower Project Life Cycle



Source: Sørensen, interview 5.05.2011

Normally, national guidelines regulate the processes that construction firms undertake in each project phase. In Norway, the Norwegian Water Resources and Energy Directorate (NVE) regulate the use of water, dam construction; and it stipulates rules for environmental and social impact assessments. In most cases, developing countries do not have such regulations in place, therefore, international guidelines have generally oriented building firms in those instances (Ibenholt et al. 2011). If projects are financed by public institutions –namely development finances, financiers defines which guidelines are applicable.

By studying the Bugoye project life cycle, it is possible to study close how the Bugoye HPP came about. It also permits to analyze the implementation of environmental and social standards. Those standards guide builders on their *do-not harm* (local communities and environment) task which represents the ‘sustainable’ element of hydropower projects for engineers.

6.4.2 Pre-planning Phase

The pre-planning phase of project is concerned with assessing and screening risks and opportunities in the environmental, social, technical, and economical aspects of a prospect project. A review of country information and risks, together with evaluation of possible financing opportunities are key aspects of this phase.

(Søreide, interview 5.05.2011). SN Power, a Norwegian company co-owned by Norfund, developed all pre-feasibility studies. SN Power also applied for and obtained the required licenses to build and to operate in Uganda.

Entry Point of TrønderEnergi

After SN Power obtained licenses to build Bugoye HPP, the company decided to sell them because SN Power launched a strategy focusing only on Asia and Latin America. Norfund considered Bugoye a good project in terms of aid assistance, therefore, the fund committed itself to realize the project (Vilsted, interview 18.04.2011). Norfund searched for potential partners in Norway who could replace SN Power. Normally, Norfund assess projects suggested by companies. If energy projects are approved, the fund undertakes a partnership with the firm. But the withdrawal of SN Power from the Bugoye project placed Norfund under an unconventional situation of having a hydropower project in quite an advanced phase without having a technical partner. This signified that Norfund had to look for a private partner with expertise in the hydropower sector and with interest to invest in such a project, something very unusual for the Norwegian fund.

After exploring different partnerships options, Norfund approached the regional Norwegian company TE, which earlier had demonstrated interest in starting operations abroad. Closing an agreement was not an easy process given financial challenges related to a high risk project. The final decision came from TE after the Norwegian government decided to provide additional financial support to mitigate financial risks of the private partner (Værnes, interview 21.10.2010). It was the Norwegian MFA which provided a financial contribution of USD 8,9 millions (NOK 60 millions) to the project which was channeled through Norfund but it was legally accounted as a grant to the Ugandan state in terms of bilateral aid relations (NORAD 2010b:33). It could be said that the Norwegian government had a double interest in realizing the project. One interest concerned to helping a developing country partner to ease its energy constraints; the other, assisting its national company in the internationalization venture.

With the provision of the Norwegian MFA to the project, the investment opportunity reached a potential rate of return of 20% for invested equity of TE, something economically reasonable for the company. Subsequently, TE accepted the proposal of Norfund and TE bought the license and the pre-feasibility study of the project from SN Power. Additional to commercial interests, the Bugoye project responded to other important considerations for the company. TE had projected its internalization strategy based on the idea of contributing to easing energy constraints in developing countries; something that could be done in the same way the company had contributed to the development of its home region; through commercially sound projects (Værnes, interview 21.10.2010). Thus, the interests of the energy group were said to be altruistic, as well.

TE and Norfund established cooperation, with the partnership consolidated in a special purpose project vehicle under the Ugandan registered company Trønder Power Ltd. The establishment of TPL corresponds to Norfund's investment stage. With this partnership TE had a guaranteed partner with financial expertise and country knowledge. With a (technical) project developer in place, the project of the Bugoye plant could be taken into the next phase.

6.4.3 Preparation or Planning

The preparation phase is concerned with making a project ready for its implementation or construction. To achieve construction stage, various plans covering the technical, economic, and social and environmental aspects are realized and consolidated in a *feasibility study*. Such a study “aims to objectively and rationally uncover the strengths and weaknesses of a project, as well as opportunities and threats, the resources required to carry through, and the prospects of success” of an intended project (Ibenholt et al. 2011:123). The main elements considered by the feasibility study conducted for the Bugoye project are: technical aspects, project financing and, Social and Environmental screening⁶³.

⁶³ Thanks to John Einar Værnes of TrønderEnergi and Gunnar Salsaugen of Trønder Power Ltd who provided documentation concerned the Bugoye project. Some of the documents were classified for “internal purpose”, others

Technical Aspects

The plant built in Bugoye is a run-of-the-river scheme with a capacity of approximately 13,5 MW, which represents some of 7% of Ugandan power supply. As a run-of-the-river plant, it captures water from the Mubuku River and its feeder, the Isya River. After that, the water is transported through a 6 km canal. Then it is diverted into a penstock before it reaches the powerhouse where two 6,5 MW Francis turbines convert the water's power in electricity. Finally, the water is discharged back into the Mubuku River. Moreover, the project included the construction of a 6 km transmission line because Ugandan law requires that power plant owners pay for connecting the plant to the national grid (Salsauguen, 27.10.2010). Something that enlarged the construction area and TPL's responsibility on the project's construction.

Project Financing

There are different methods to finance infrastructure projects. All previous investments taken up by TE had security on the group's headquarters. Nevertheless, the new venture in Bugoye was financed by a method called *non-recourse project financing*. This system entails that the project itself has to provide full security to lenders; so, guaranteeing income from production and reduction of risk were necessary elements for finding an additional lender (Davis, interview 18.04.2011). In the case of a hydropower project commercial, construction, and hydrological risk mitigation had to be documented.

Success of project financing relies on putting in place a structure that assures commercial viability and the reduction of project related risks. Project financing is required in all commercial financial activities in order to document the bankability of the project. It is the ability of a project to pay the loan back, in the case of energy infrastructure, from earnings made by selling the electricity generated. Chart 3 introduces the main contracts for the project's bankability; detailed description in Annex 9.

Chart 3: Bankability Elements of Bugoye HPP

Commercial	Construction	Hydrology
<p>Power Purchase Agreement Tariff: 12, 9 USD cents/kilowatt hour (c/kWh) during the first three years and 7,2 c/kWh thereafter. Guarantee payment for deemed energy.</p> <p>Ugandan government guarantee Buy-out clause in cases of non-payment of the transmission company.</p>	<p>Separated contracts including guarantees with all outsourcing companies:</p> <ul style="list-style-type: none"> - Civil works - Electro-mechanical - Control & switchyard - Transmission line 	<p>TPL provided a guarantee capped at around 10% of the loan to cover failure to pay in case of little water flow that prevents the power plant to meets its production goal.</p>
Source: Documentation courtesy of TPL		

Bankability is usually achieved through obtaining various legal contracts from eventual buyers of the electricity and guarantees from project suppliers of parts and services. For the project, TPL negotiated a Power Purchase Agreement (PPA) with Ugandan government, construction guarantees with its sub-contractors through legal agreements. TE also obtain a guarantee from the Norwegian GIEK to invest in TPL and the Bugoye project (NORAD 2009:141).

Chart 4: Financing Structure of Bugoye HPP

Financing	USD Million
Equity	
TrønderEnergi 68%	19.7
Norfund 32%	
Grant form Government of Norway*	8.9
Debt from the EAIF	32.0
TOTAL	60.6
*Structured as zero interest loan to be transferred as equity to the Government of Uganda in 2034. Source: NORAD 2010a, Box 7.1.	

After bankability documentation was in place, the financing of the project was achieved thanks to equity contributions done from Norfund, TrønderEnergi, a senior debt with the Emerging Africa Infrastructure Fund (EAIF), and the grant provided by the Government of Norway. The additional financier, the EAIF is a publicly owned fund financed by several European foreign aid agencies and it

has a mandate to support infrastructure projects that promote economic growth and that target poverty reduction in Sub-Saharan Africa⁶⁴.

Financing aspects of the project is of importance because it commits the project owner (TPL) to take special consideration for sustainability and good governance issues, aspects discussed on section 5.4. For the EAIF, investments are required to “adhere to local and international environmental, social, and health and safety standards⁶⁵” according to EDFI rules. Norfund requires that companies and projects where the fund invests adhere to their sustainability guidelines which are also prescribed according to EDFI’s parameters and the IFC-PS, discussed in section 5.4. In this regard, publicly-owned financiers have power *vis à vis* investee companies to hold them accountable for responsible operations according to established sustainable and good governance standards.

Social and environmental aspects

In the case of Bugoye HPP, Ugandan guidelines had to be followed regarding local ownership of electricity-generation company, private property rights, permissions for the use of the land and water, energy concessions, environmental permissions, etc. Moreover, as TPL is owned by a Norwegian company, which built its expertise by using the Norwegian NVE guidelines, application of that framework was a natural section to extend to the Bugoye project. For TPL, the NVE framework provided additional security to the project design and technical aspects (Værnes, interview 21.10.2010). Furthermore, the founders required the application of the IFC-PS and international guidelines on HES which demand the preparation of an environmental and social impact assessment (ESIA).

The ESIA is a tool for assessing and managing environmental and social impacts in infrastructure projects. In the preparation phase of a project it is necessary to conduct an analysis of potential environmental impacts and to consult local population (Søreide, interview 5.05.2011). In order to comply with the stated guidelines, TPL hired the Ugandan consultancy company Newplan which

⁶⁴ EAIF. “About Us”. Retrieved 15 April 2011. <http://www.emergingafricafund.com/about-us.aspx>

⁶⁵ EAIF. “Investments Policy”. Retrieved 15 April 2011. <http://www.emergingafricafund.com/policy-and-procedures/investment-policy.aspx>

elaborated the ESIA and other required IFC-PS i.e. the Environmental and Social Management Plan (ESMP) and the Resettlement Action Plan (RAP).

Infrastructure projects like Bugoye require extensive civil works that typically affect local communities and the environment. Also, hydropower projects are traditionally known for leaving relatively large footprint on the surroundings. However, with a run-of-the-river design, the Bugoye project is not involved in the construction of dams, which have accounted for these major problems throughout hydropower development history (Usher 1997; Anthony 1997; Scudder 2005; McCully 2001). In the phase of project preparation and as part of the ESIA, key stakeholders were consulted in seven villages in the Bugoye Valley (Sylvian, interview 19.04.2010). The consultations were done through a formed structure, the Bugoye Participatory Committee (BPC). During consultations, no disturbances or protests were encountered. According to Irene Sylvian, consultant from Newplan responsible for the Bugoye project, the community responded positively about the works and company. She also commented that local people expected to profit from the construction of the project.

According to information provided by TPL, the main issues resulting from the conversations in the BPC were: a) the use of land and resettlement; b) access to water; c) movement across project site; and, d) traffic, noise and dust⁶⁶. The issues identified by the BPC were incorporated in the ESIA, ESMP, and RAP, which constituted the base for the construction phase of the project. The stated plans delineated the responsibilities of different actors (construction company, designers, and consultants) in terms of implementing the ESMP and HES guidelines. Norfund in cooperation with NORAD sent an officer to Uganda who was in charge of monitoring the implementation of the social and environmental plans and their respective mitigation strategies in the case of a damage or a

⁶⁶ Document courtesy TPL.

potential harm. The resulting monitoring costs were covered by a grant provided by Norfund to TPL under the technical assistance facility⁶⁷.

6.4.4 Implementation

At this stage, the construction works and all related activities to implementing the designed project starts. Social and environmental aspects, including monitoring and reporting, together with execution of HES guidelines take place in this phase (Søreide, interview 5.05.2011). To build the power plant in Bugoye, TPL sub-contracted the company Noremco for all construction related work. Noremco is a construction company, part of the leading Scandinavian construction group Veidekke, with head offices in Tanzania and operations in East and Central Africa⁶⁸. Construction materials were mostly bought locally and taxes were paid according to Ugandan law for imports of the turbines and electrical machinery. The power house and the canal accounted for the civil works, and this had to be synchronized with the delivery of imported materials, which were delayed in Ugandan customs due to lack of clarity of tax payment issues.

Construction was rather difficult. The valley is hilly and there are high ground water levels in some areas. Additionally, the area was densely populated, making it important to design the canal with good structural support and to solve the issues of land acquisition in an appropriate manner to avoid further legal conflicts and to comply with Norfund's standards (Værnes, interview 21.10.2011). Construction went according to plan except the difficulties experienced with stolen materials i.e. sand, bricks, cement, cables, oil; problem that may have incremented the final costs of the project itself (Silvian, interview 19.04.2011).

Additional infrastructure improvements, like construction of a road, to access the project site were built for the realization of the project and after that maintained for the public use of locals. During the construction period some 425 employees (Norfund 2009:4-5) were hired locally, some of them received training and all of

⁶⁷ Document courtesy Norfund.

⁶⁸ Noremco. "Who are we". Retrieved 12 May 2011. <http://www.noremco.se/who-we-are.htm>

them had access to the clinic installed for the duration of the construction. Despite infrastructural and geographical challenges the power plant was delivered beforehand. Something that can be considered successful given the poor conditions of infrastructure and communications in Uganda.

Implementation of Social and Environmental Aspects

This section will describe the social and environmental (S&E) procedures that took place during the construction of the project. Clarity of those aspects permit to assess if the investment in Bugoye was sustainable and conducted under responsible actions according to Norfund requirements to infrastructure projects. The issues elaborated in this section resulted from the consultations in the BPC and on the ESIA. The respective management of those topics account for management of S&E's Action Plans.

In terms of land use, the Ugandan law requires cash-for-land compensation; though, the project negotiated a land-for-land compensation and offered additional land and assistance with registration of land title. Assistance with legal aspects to local owners, was claimed to, provided a considerable increase of land value, especially for women (Sylvian, interview 19.04.2010). In the light of this procedure, women were assumed to be the head-of-the-family because in the local society tribal traditions allow man to have several wives, and therefore men are not invested with parental responsibility to sustain the family: wife and children. This cultural practice allows males to, both, host family members or to turn them away from his house at any time, leaving family members without a place to live. With the inclusion of the gender element in land ownership, women could obtain land or houses to host their families.

During the resettlement process, all 34 affected families (Norfund 2009:4-5) were given new houses. According to the IFC team that visited the project site, “replacement houses are substantially bigger and of better quality than affected houses⁶⁹”. Additionally, locals were given the opportunity to choose their own compensation land. In many cases families were relocated to areas close to other

⁶⁹ MIGA. “Bugoye ESRS final”. See pag 5. Retrieved 10 September 2010.
http://www.miga.org/documents/Bugoye_ESRS_final.pdf

family members, the road or other important daily community infrastructure. Furthermore, compensation payments for land and crops were arranged with 372 families (Norfund 2009:4-5). In compliance with IFC-PS 8: Cultural Heritage, TPL relocated graves, an aspect of relatively serious importance to the traditions of these tribal cultures⁷⁰. Regarding these actions, the general response from affected families was positive⁷¹.

Concerning access to water, community had a major worry. However, the design of the project allows running a minimum water flow in the river, so that local people can collect the source when needed. Additionally, TPL financed two other solutions for helping the community to have water at hand; the initiatives will be described in the next session 6.5 because they do not respond to the obligations of the company but to voluntary gifts. The BPC also discussed the mobility problems caused by the 6 km long canal that impeded traditional paths of movement. This issue was resolved by asking the community to identify suitable crossing points, so that TPL could arrange the construction of 10 crossing points or bridges.

The last issues of the BPC were the traffic, noise and dust concerns. Information provided by TPL confirmed that this was a challenging task because in many of the cases it was necessary to regulate the working hours of sub-contractors. Something that could have cause delays in the construction of the power plant. Large levels of noise were produced by crushing stone locally. To mitigate this, a special site was selected for that task by considering the possibilities of minimizing noise and dust, and monitoring of such actions was also undertaken.

TPL also had to implement international HSE standards and guarantee labor conditions after Ugandan law. However, most of the implementation of this set of standards was done by the civil contractor, Noremco. The supplier of civil works was contractually bound to prioritize local recruitment, which resulted in the employment of approximately 425 local employees (Salsauguen, interview

⁷⁰ Ibid.

⁷¹ Document courtesy TrønderEnergi.

27.10.2010). A close follow-up to sub-contractors was done at the request of TPL. Very few incidents took place but none of them were fatal.

6.4.5 Operational Phase

This final stage describes the existence of a working hydropower plant. During the whole operational life of a project complete evaluations should be undertaken (Søreide, interview 5.05.2011). The Bugoye HPP started operations in October 2009 and after 25 years of service for TPL, it will be handed out to the Ugandan government. The project has also been approved for validating the reduction of carbon emissions, earnings that will be used for improve the rentability of the project and 60% will be given to the Ugandan government. After opening, machinery was synchronized for smooth operations; thereafter, the plant has been producing electricity according to expectations. In fact, unexpected increases in water levels have led to slightly increase on production since the middle of 2010 (Salsauguen, interview 27.10.2010). This aspect is welcomed by the private investors given the increases on their earnings.

6.5 Corporate Responsibility initiatives.

While the subscribed IFC-PS are about securing living conditions of local people, there are neither national nor international binding rules that guide companies in terms of supporting local communities for improving livelihood conditions. Corporate Social Responsibility (CSR) “is concerned with treating the stakeholders of the firm ethically or in a socially responsible manner... The aim of CSR is to create higher and higher standards of living, while preserving the profitability of the corporation” (Hopkins 2007:9). Voluntary initiatives of this sort were not required by Norfund, but the development fund suggests to their invested companies initiate socially responsible programs.

Governments of developing countries can be very engaged in procuring electricity, but they often lack frameworks that require project developers to provide minimum considerations for the well-being of local communities and institutions that secure this equity task, as in Norway and most of the global

North. In the light of ineffective or non-existent frameworks that could guide private sector interventions for enhancing local livelihoods, CSR has emerged.

In the case of the Bugoye HPP, TE's board of directors was highly concerned with reputational aspects of the group initiating operations in a country with corruption risks⁷². However, other politically ethical concerns were raised for starting CSR activities given the character of the board members of TE.

“... the members of TE's board are local [Norwegian regional] politicians and they are interested in taking CSR issues seriously. TE wants to contribute to developing countries' economies by bringing electricity, but we also want to raise the living standards in the places where we develop projects as we have done in our home country” (Værnes, interview 21.10.2010).

Furthermore, Mr. Værnes emphasized the thought that CSR is also a part of the company's strategy for increasing the rate of return on their investments. The believe is that TE can make money and by making money we support the local communities where TE is present (Værnes, interview 21.10.2010). In fact, TE is used to the fact that some part of the project money goes to supporting the local community and showing them benefits that the hydropower plant will bring to them due to Norwegian regulations of benefit sharing.

Conversely, this was not the case in Bugoye because all the energy generated will be delivered to the national grid due to a decision of Ugandan national government. In the absence of obvious benefits or direct effects from the power plant to the local community, TPL wanted to provide other opportunities that could help to generate a good relationship with their local neighbors, so that locals could see that the project was bringing some good to them as well. The following CSR programs were developed in cooperation with the BPC, the social consultant from Newplan, and a local NGOs, as TPL was committed to widespread efforts to increase the number additional of benefits to the local community.

⁷² TrønderEnergi. ”Om TrønderEnergi i Afrika, Bugoye” Retrieved 23 March 2011. <http://www.tronderenergi.no/bugoye.aspx>

In the health area, resources were provided to local NGOs to conduct HIV/AIDS awareness and a malaria prevention program. Treated nets were distributed to pregnant women and small children, as they are the major sufferers of malaria. The local clinic was reconstructed, and new buildings to house the maternity ward and out patient department were donated. TPL also arranged electricity access for medicines⁷³. In regard to water use, several access points to water along the power plant's canal were built in order to improve access to water for the community. Additionally a co-financed initiative, with the European Union in cooperation with the Austrian Development Agency, built pipelines in the valley for supplying drinking water to local communities.

The last voluntary initiative in the Bugoye community was the provision of economic support to the local non-governmental organization Community Development Through Sports (CDTS) which conducts programs of social development through sports-based activities⁷⁴. The organization CDTS, uses football and netball as an avenue to gain the trust of the community, so that they can provide health and sanitation education⁷⁵. CDTS's activities also contribute to building healthy self-esteem of children and youth in this impoverished society, reducing the levels of prostitution, alcoholism, and domestic violence (Pritchard, interview 7.04.2011). CDTS obtained help from TPL to mobilize the sub-contractor Noremco, which built a football ground in the Bugoye town.

Besides the CSR programs directly focused towards the affected population, TPL decided to contribute with the Mababali Memorial School for Orphans. The school takes care of a total of 264 children, nearly half of whom are orphans⁷⁶. The provision of assistance covers the administration costs and some infrastructure improvements, like the construction of a new kitchen. Even though this school is located near Kampala and not in the Bugoye area, it is believed that

⁷³ Presentation by Bernhard Kvaal from TrønderEnergi at the conference "Energibistand og forretningsmuligheter i Afrika" 11.11.2010 at Håndverkeren. Permission obtained through E-mail conversations on 8.04.2011.

⁷⁴ Presentation by Bernhard Kvaal from TrønderEnergi at the conference "Energibistand og forretningsmuligheter i Afrika" 11.11.2010 at Håndverkeren. Permission obtained through E-mail conversations on 8.04.2011.

⁷⁵ CDTS. "About us" Retrieved 29 March 2011. http://www.cdtsuganda.org/about_us.php

⁷⁶ TrønderEnergi. "Press released: Nå sponser vi ungene på Mbabali-skolen". Retrieved 12.04.2011. <http://www.tronderenergi.no/nyhet/na-sponser-vi-ungene-pa-mbabali-skolen-59.aspx>

benefits from the Bugoye project should be shared with the broader Ugandan population.

The CSR strategy for the Bugoye case was done to build the reputation of the company by strengthening the social and environmental commitments of the company with project financiers as Norfund and the EAIF; it also seems to be influenced by Norwegian regional politicians concerned with the tasks of firms in the equity role of the state even if the publicly owned company operates in a foreign country.

6.6 Existing Assessments

The intervention of Norfund in cooperation with TE for the realization of Bugoye HPP has been assessed once by Norfund in 2009, and twice externally by NORAD (2010a, 2010b). In both evaluations, the assessments were based on the goal: “Help meet the energy needs of the Ugandan population to promote environmentally sustainable social and economic development”(NORAD 2009:83). Assessments concluded that the project, in addition to helping ease energy constraints in the African country, was catalytic, additional, and of high relevance for Norwegian development assistance (NORAD 2010b:34). Despite a generally positive assessment, two main issues have prompted important discussions in the light of the replicability of the model. Directly from the project itself, the price of the electricity is contentious. Secondly, the indirect intervention of the Ministry of Foreign Affairs had a positive influence in the project financing.

The Issues of the Price

Assessments concluded that the agreed price for selling the electricity to the Ugandan transmission company was too high; in the light of Norwegian aid, some economic interests may have prevailed over aid goals. An evaluation determined that the tariff structure was the result of an asymmetrical negotiation and positioned the Ugandans in the middle of an energy crisis and weak. The price paid to the Bugoye plant is USD 12,9 c/KWh. By 2007, the price of the

electricity in Uganda was USD 0,24 c/KW/h (Byakola 2007:6). Compared with polluting thermal power (USD 28 c/KWh), Bugoye's offer is good. But, if it is compared with recent medium hydropower projects financed by other development banks, like Mpanga, Bugoye's price is twice as much (NORAD 2010b:33). In the light of Norwegian reports, the Bugoye project is not a cost-effective solution for Ugandans who have to pay a higher price for energy produced in a cheaper manner.

The issue of the Grant Pprovided by the Norwegian Government

Bugoye "is a wholly-owned Norwegian company partially funded by a grant taken from a country allocation to Uganda" (NORAD 2010b:34). Public finances in the Bugoye project comes from two separate areas of the Norwegian aid budget: from the economic development assistance area and from the bilateral budget. NORAD's evaluator committee considered that a rule was break when the MFA used bilateral sources to finance the Bugoye project. In the view of ODA's rules this is problematic because it reduced the possibilities of the Ugandan state to have some ownership of the project from the beginning (Ibid:33). Moreover, the financial resources were channeled through an assistance facility in Norfund, an unconventional practice, because political routines in Uganda did not accepted a direct grant to support a private project.

The evaluators concluded that NORAD, as the directly responsible for allocating ODA resources, demonstrated to have a need for policies that prescribe a process where public allocations are used to finance private projects with a development purpose. From the view of the Norwegian Embassy in Kampala (Uganda), the Norwegian government as a donor has certain power to influence the procedures for development cooperation. However, this power should be used for being a model rule-follower, rather than acting according for its own benefit (NORAD 2010a: 28). Summarizing, while the Bugoye project has accomplished Norfund's mandate of additionality, relevance, and is catalytic, administrative issues concerning the management of ODA require attention.

7. Development Provision?

The theory chapter introduced the role of the state as connected with the main tasks of *efficiency* and *equity*. It was also argued that the perceived new role of the state, as a *competition state*, inclines towards market-driven approaches to achieve public goals. In the case of Norwegian foreign aid, Norway aims at assisting developing partner countries in their task to reduce poverty, to ensure economic growth which at the same time protects the environment, human rights, and gender equality. All of this done according to good governance models which can also improve the country's work towards Millennium Development Goals. All of the above mentioned public objectives constitute the *equity* and *efficiency* tasks of Norway, as donor country.

A way to achieve those goals through a market-driven institution, Norfund, was introduced in chapter five. And a particular example of an intervention in the Clean Energy for Development Program was studied in chapter six. The intervention is of particular interest because, as opposite to traditional intervention state-to-state, a state agency co-operates with a firm to deliver the public goals of Norwegian foreign aid. As this thesis examines whether 'competitive' *modus operandi* of states can achieve public goals, this chapter examines the significance of the results delivered by Norfund's intervention in the Bugoye hydropower plant. Existing assessments of the intervention in Bugoye have proven that Norfund's task was catalytic, additional, and of high relevance for Norwegian foreign aid. This chapter, however, pretends to revise the development-related *equity* goals delivered by the project. A threefold assessment method is used. It looks at the social and environmental aspects of the Bugoye project and contrasts the delivered results against the claims of Norwegians CSOs, which in this study are assumed to be the voice of the Ugandan people.

7.1 The Concept of Development

The concept of ‘development’ is rather broad and a well debated one among social and economic disciplines. Historically, Norwegian aid has mixed the phrases of “development relevant” with “aid relevant”; making it difficult to assess the effects of aid interventions and policies (Simonensen 2008:98). I see ‘development’ “as a vision, description of the state of being of a desirable society” (Allen and Thomas 2000:29). Whereas ‘aid’ is something given in the form of a gift with the purpose of assisting the receiver in its tasks. In international relations, aid or foreign aid is defined as

... a voluntary transfer of public resources, from a government to another independent government...[with] one goal of which is to better the human conditions in the country receiving aid. (Lancaster 2007:9)

Concretely, the OEDC/DAC states that the objective of foreign aid or official development assistance, as they conceptualize it, is “the promotion of the **economic development and welfare of developing countries** as its main objective⁷⁷”. So ‘development’ in terms of foreign aid is related to economic growth and welfare increase; in other words, with the *equity* and *efficiency* tasks of a state. Hence, transferred resources are supposed to assist the receiver country in its tasks of economic development and welfare creation, which ultimately account for a country’s own idea of development.

Even if ‘development’ can be seen as a society’s own aspiration, this evaluation will consider the concept of ‘development’ from the political view of foreign aid which is interrelated with the applied theory. My understanding of concepts can be polemical in the light of debates about self-interest of donors, promotion of economic interests or the advance of a capitalist development paradigm (Lancaster 2007; Mavrotas 2010; Moyo 2010). However, it is useful as a starting point for conceptualizing elements of the assessment.

⁷⁷ OECD “Development Co-operation Directorate – Official development assistance- definition and coverage” Retrieved 5 March 2011. See point ii. Details of transactions.
http://www.oecd.org/document/4/0,3746,en_2649_34447_46181892_1_1_1_1.00.html

Material perspectives in institutional theory see organizational behavior subordinated to the mandates of institutions. As such, a mandate is intrinsically connected to the idea of desired development of a country. If an institution fulfills its mandate, it contributes to the realization of the final aspiration. From an institutional stand, I see, foreign aid is organized in the way that country A (donor) mandates its aid-related institutions to provide assistance to country B (receiver) to realize country B's mandated development ambitions.

In this case, Norway mandates Norfund to assist the government of Uganda to persuade the Ugandan goals on renewable energy through incentivizing firms to co invest in clean energy projects in Uganda. Certainly, the first mission of the development fund is the mobilization of private partners and enterprise creation. But Norfund is also invested with a "development mandate" mandate which is to contribute to the goals of Norwegian foreign aid and to avoid negative impacts of business' operations. The understanding of Norfund's mission to contribute to the receiver's own development is rather laden towards the donor's goals.

7.1.1 What is a Successful Energy-Related Public Investment?

A way to bring in the developmental goals of the receiver country is to consult to CSOs, which in the Norwegian aid system have serve to legitimize the Norwegian model of aid delivery (Tvedt 2009). Institutions need acceptability and credibility to survive and prosper (Scott et al. 2000:237). Such conditions are given by *legitimacy*.

Legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate with...[the] constructed systems of norms, values, beliefs, and definitions." (Suchman 1995:574)

With this, CSOs have given a value to Norwegian aid policies and interventions. By consulting the ideas of CSOs of what constitutes a successful market-driven intervention in the energy sector of developing countries, I gather the perceptions of what is considered as the appropriate mode of action of Norfund in this intervention. Bringing in the voice of the receiver country through consulting Norwegian CSOs raises questions. Interviewed organizations are not

directly entrusted to act on the behalf of the government of Ugandan or its peoples but the primary mission of interviewed CSOs is to represent the interests and the rights of people in developing countries when they cannot do it by themselves. Besides, CSOs can be seen as international actors when they operate on an international arena, as foreign policy; CSOs are also legitimate when they do not represent the specific interests of a state or a firm but when they advance the ideal of equality (Arts et al. 2001; Lewis and Kanji 2009; Mattli and Woods 2006; Van Ham 2010).

Now, Norfund have based their course of actions on Ugandan national policies that call for implementation of renewable energies to improve energy constraints of the country and thus boost economic growth. It is possible to claim that Norfund's reason to intervene is legitimate in the light of Ugandan rules. Is this intervention legitimate in the eyes of CSO actors? I found that the general position of surveyed organizations revealed that clean energy aid in the form of public investments in profit-oriented actors was positively received. Nevertheless, concerns were directed to the form of how projects are managed. In line with this, attention was given to the rights of local populations, especially if indigenous people were involved; natural resource protection; holistic project planning; standard application lifting; and the role of private sector acting as aid actor. Annex 10 presents the data collected from informants.

In terms of successful hydropower projects that the foreign aid finances, CSOs agreed that projects should be planned holistically. To the question: what should be considered as a successful hydropower plant built with public finances in developing countries? The respondents answered that project feasibility studies should equally balance the economic, technical, social, and environmental aspects (See Chart 5). Public financiers should be responsible for raising the level of applied standards and for following the life cycle of invested projects.

After the intended objectives of the project and the concept of desired development were presented in this section, it is possible to realize an assessment of the results delivered by Norfund in the Bugoye intervention.

Chart 5: What is Considered as ‘Successful’ Hydropower Project?

CSO Topic	
	Holistic planning - Project Management
WWF, Norway. Stefan Norris, Energy Adviser	<p>Project proposals should include the right cost-calculations that provide the companies with the most economic gains but such calculations should include the costs of applying the highest possible standard.</p> <p>We push for public financing institutions that can raise the level of standards as much as possible, and that they follow a life cycle perspective of the projects.</p>
Regskogfondet. Siri Damman, International Policy Adviser	<p>The industry is not so good at analyzing the environmental and social consequences. This is something very important because in many developing countries there are pre-existing conflicts between the society and the state; this is something that can be reflected and affect negatively projects.</p> <p>From our experience with infrastructure projects, companies are neither really prepared, not well informed about the markets and societies where they will invest.</p>
FIVAS. Andrew Preston, General Manager.	<p>We in Fivas are concerned with a holistic planning process for single projects. We want that the project is considered equally towards financial, social and economical considerations.</p> <p>Normally, technical and economic plans predominate the project assessments. We are for integrating Social and Environmental aspects of project assessments and planning from early stages.</p>
NCA. Eivind Archer, Special Adviser	<p>A project with a good design that considers the affected groups. This can be achieved through good planning and inclusive processes and compromise.</p> <p>Public funders should clarify that the company is legally entitled and responsible to ensure that their subcontractors follow international conventions and guidelines.</p>

7.2 A Running Hydropower Plant in Bugoye

The first goal of Norfund was achieved by getting TrønderEnergi involved in the realization of a hydropower in Bugoye, Uganda. Second, the cooperation between public institution and energy company resulted on bringing about a green-field-project for a hydropower project. This means that nothing existed before in and now a power plant that delivers energy to the national grid is in place and running (Vilsted, interview 18.04.2011). Among the aspects of success, it is possible to mention that the project was completed six months ahead of schedule and within budget (NORAD 2010b:33). Relatively high project performance is actually challenging given the constraints met in the Ugandan

local settings, including problems with imported supplies held up in customs, and land ownership certificates delayed by the respective authorities (Salsaugen, interview 27.10.2010). Despite complexities, TPL proved that it is possible to realize a small-scale power project in a developing country.

The factor of success for Norfund was to take a project off the ground and help through to its realization. According to NORAD, Bugoye HPP is a foundation stone in Ugandan energy infrastructure history “because it is the first hydropower facility completed with commercial finances” in the country (NORAD 2010a:28). Commercial finances are used in this context because the plant is owned by a private company (NORAD 2010b:34), TPL; and it was funded with the project financing method used normally by commercial and not by public entities.

This initial adventure was a big learning experience for the Norwegian company. The success on TPL strengthened the group’s desired to continue operating in Uganda in line with the group’s planned expansion. Until 2010, four extra projects are being explored in Uganda: the renovation of Mubuku 1 and Mubuku 3; and the development of new stations in Kikagati and Nsongezi⁷⁸. With an initial demonstration project, the Ugandan clean energy infrastructure market is now more attractive to potential investors. If one foreigner company could built a hydropower plant on time and within budget, other firms could do so.

Electricity Delivery

All the electricity produced by the power plant is delivered to the national grid. Therefore, the Norwegian CSO FIVAS wonders why the power plant delivers electricity to national grid instead of supplying the local community (Preston, interview 4.11.2010). The answer to this question is explained by the plans of Ugandan government, for in the concession it was stated that all the electricity was to be delivered to national grid. TPL informed me that when they asked the government if there was a plan to supply local communities, the answer was no (Værnes, interview 21.10.2010). The Ugandan energy sector is divided into

⁷⁸ Presentation by Bernhard Kvaal from TrønderEnergi at the conference “Energibistand og forretningsmuligheter i Afrika” 11.11.2010 at Håndverkeren. Permission obtained through E-mail conversations on 8.04.2011.

several clusters therefore it would create an organizational conflict if TPL were to be involved in tasks of energy transmission when the company is registered as an energy producer. In a near future TPL can expect to collaborate with other energy actors to supply the Bugoye community with electricity (Salsaugen, interview 27.10.2010), but this is a project of a different nature. In light of national rules, a question remains: should private companies or the Norwegian aid institution be held accountable for this type of decision?

7.3 Norfund, the Equity task

The Bugoye HPP is in place and operating. What does this signify for the local community and environment in terms of providing *equity* benefits? This section presents the assessment of *equity* goal achievement in the Bugoye project. Annex 11 contains the collected data related to the results of the Bugoye intervention organized according to IFC-PS DOTS framework. In this section, I discuss what the results indicate for the equity task of Norwegian foreign aid's goals by bringing in environmental and social analysis according to the proposed assessment method. Equity goals are assessed against Norfund's concept of sustainability as risk management and towards the contribution of the intervention to the goals of Norwegian foreign aid goals.

7.4 Environmental Aspects

The initial rationale of Norwegian government with the CEfD is to help developing countries to produce energy from clean energy sources in order to reduce global green house gasses. Additionally, Norfund's sustainability guidelines hold the fund responsible for environmental damages caused by the operations of an investee company.

7.4.1 Sustainability Management

For the realization of the power plant, the project followed all Ugandan regulations and included the nationally required ESIA. Also IFC-PS was undertaken. Such studies were prepared by the Ugandan consultancy company

Newplan and were approved by the Ugandan environmental authority NEMA. The ESIA follows international guidelines and illuminated potential environmental and social impacts of the Bugoye plant. Thus risk management plans were supervised by Norfund's local officer in Kampala. Having an ESIA and management a plan, the TPL was compelled to comply with Norfund's sustainability. In addition monitoring reports were provided to Norfund according to the demands of the financier.

During the construction phase, some environmental challenges were present. Unexpected floods caused water pollution in the river downstream. Moreover, a landslide destroyed some portion of the civil works and caused crop damages in neighboring areas. Contingency measures for affected people and environment were taken in order to alleviate these unforeseen events (Sylvian, interview 19.04.2011). The consultant added that they planted trees in order to improve the quality of the terrain and cash compensations were given for lost crops. Whilst the former mitigation measures have environmental importance in terms of terrain stability, the latter has a social significance because agriculture is the main source of food for local people in the valley.

Environmental sustainability, in this case, has two extremes. One is concerned with the technical ideal of not-harming by undertaking impact assessments and to mitigate harms according to action plans. The other relates to political processes of imposing rules on behavior, like Norfund's sustainability guidelines invest actors with a responsibility to act according to rules. In the Bugoye intervention, both approaches are interrelated. Norfund impose rule following for environmental protection and such processes are arranged according to technical tasks. The praxis of this is idea of sustainability mixes the technocratic and political processes in one where none of them seem to prevail over the other. This operational form can be considered as "depoliticized" (Bøås 2002:435) because the decision-making is not guided by specific political interests but on the technical idea of greater common good for the project as a whole.

7.4.2 Climate Friendly Hydropower Plant

As a hydropower scheme, the project counts as a GHG mitigation project according to the OECD scheme for project categorization (Norfund 2009: 4-5). The contribution of Bugoye HPP to Uganda was to augment the country's capacity to produce clean energy. The power plant does not replace polluting sources as such but it increases Uganda's energy production capacity by 7% without incrementing the emissions of CO². The project applied successfully as certified emissions rights, for within this framework, it is expected that the power plant will replace 54 349 tones of CO² annually⁷⁹. Certification for reduction of emissions is welcome by investors because it is source of additional income from the project. Demonstration that certification as a mechanism to control GHG serves to prove that this instrument function in a market-friendly manner; therefore, replication of this instrument is possible.

7.4.3 Environmentally Friendly?

Renewable energies as a mitigation source have zero or low GHG emissions. Hydropower is nevertheless the most debated production source. On the one hand, hydropower production can produce energy releasing nearly zero emissions. In the other hand, they can alter water ecosystems and disrupt habitats and communities (International Rivers 2004, World Commission on Dams 2000). The EIA's findings concluded that natural habitats are modified by previous human use and fish migration was already altered by a power plant located upstream⁸⁰. As a result, Bugoye cannot be held directly responsible for biodiversity losses in the water system. This type of effect has been described by WWF as a "justified intervention" because "in the light of pre-existing projects there was no untouched nature" in the project site (Norris, interview 12.05.2011).

The plant in Bugoye is a run-of-the-river scheme with a component that allows a minimum water flow in the river. With run-of-the-river designs, the project is not involved in controversial dam constructions. "In theory, run-of-the-river systems

⁷⁹ UNFCCC. "Project Design Document for Bugoye". Retrieved 22 October 2010.

<http://cdm.unfccc.int/UserManagement/FileStorage/ETB0SH6WY5OIG2VPC9Z1RNAD783LXF>

⁸⁰ Document courtesy TPL.

would have minor environmental impacts but the company should be willing to pay for mitigating measures (Norris, interview 12.05.2011). However, it is unclear the type of mitigation measures that should be taken into account because IFC standards are too general for hydropower projects (Norris, interview 12.05.2011; Preston, interview 4.11.2010). For Bugoye, it was possible to identify at least one mitigation measure related to environment and TPL decided to approve it. The company permitted a minimum water flow in the river, even though IFC-PS standards did not require it. Best practices for the company go in line with Norwegian NVE guidelines.

By including in our design a minimum water flow, we wanted to ensure sufficient water stream year round in the river. We have done the same in our projects in Norway and our experience tells us that is a good thing. Therefore, this element had to be included in Bugoye as well. (Salsaugen, interview 27.10.2010).

Previous experience of the company in their home country has taught engineers to follow best practices at all times for common benefit. TPL showed a genuinely compromise with standard application given that previous experience of the company at its home country has demonstrated the importance of rule following.

If the presented results are contrasted to Goodland's concept of environmental sustainability, the power plant can be catalogued as sustainable. It mitigates potential GHG and it helps sustaining the menaced atmosphere's carrying capacity. The capacity of water to serve as a productive input is better because no pollution results from the production of energy from hydropower. However, in terms of biodiversity, holistic national planning is needed to mitigate potential impacts of uncoordinated private interventions on Ugandan natural ecosystems.

7.5 Social Aspects

Poverty reduction and contribution to Millennium Development Goals (MDG) are desired goals for Norwegian foreign aid. Additionally for CSOs, it is important that the opinion of local communities is keeping into consideration from early phases of the project. Goal-achievement, in this section, considers the

application of social standards connected to Norfund's requirements for project financing.

7.5.1 Social Impact Assessment

During the pre-feasibility phase of the Bugoye project, local population was informed about the construction of the plant; however, this happened while SN Power owned the project so TPL could not provide details (Salsaugen, interview 27.10.2010). Norwegian CSOs would expect that local communities are consulted rather than informed about a potential project, so that local representatives can discuss with the project developers prior approval of the concession. As Norfund operates according to IFC's standards, they do not set a requirement for pre-consultations that include prior community consent, like the World Commission on Dams standards suggests. Legally speaking, according to the soft-rules imposed to the private actor, the company (SN Power and TrønderEnergi) followed the rules of Norfund and the legally binding norms of Uganda.

When TPL took over the project, the second phases of consultations were directed to "inform[ing] the population of what TPL's aims were and how they intended to do the project" (Pritchard, interview 7.04.2011). With this action, TPL proves to have a respect for the local community. Subsequently, the social impact assessment realized for the Bugoye project delineated risks of affecting the neighbors of the project in terms of resettlement and the socio-cultural implications for such a process (Salsaugen, interview 27.10.2010). Thus, the BPC was formed to consult local population about potential issues that the power plant may cause. Additionally, the first stage of the BPC served as a vehicle to solve the resettlement of affected families.

However, the local CSO, CDTs described that the initial phase of the BPC did not work as expected by TPL and Newplan because local political leaders used BPC as a tool to obtain personal gains without the consent of the company or the local citizens (Pritchard, interview 7.04.2011). An initial failure led TPL to rethink a working strategy with the community. The resulting approach

demanded a higher involvement of the local people and of the advisors of Newplan. Then, Newplan supported by TPL, took more responsibility for organizing the grassroots existing in the communities. As a result, a more transparent resettlement process and other benefit sharing activities could be done (Pritchard, interview 7.04.2011). To a great extent, the lack of trust in public authorities meant that much of the benefit sharing activities outlined in the BPC memorandum of understanding were channeled through the local CSO. After, the new working framework was decided, further processes were clear and successful (Salsaugen, interview 27.10.2010). As suggested in the theoretical framework, governance models that include the government, CSOs, and the private actors are the suggested frameworks for market-driven activities.

7.5.2 Reduction of poverty?

The Livelihood framework requires that studied interventions fulfill the physical, financial, human, natural capital, and social aspects of poverty reduction approaches. From breaking down the chart in Annex 11, we find proof that all the suggested aspects of the livelihood framework are covered by the Bugoye project in various ways.

Reading the UNDP's livelihood checking list, certain evidence stands out. First, the provision of *physical* infrastructure was clear in the Bugoye intervention. Examples of this were: the improvement of the access road, the upgrade of a local hospital, construction of water pipelines, and the construction of the football field. Additionally, all the restored houses were bigger and of a higher standard than the affected buildings (Salsaugen, interview 27.10.2010). The legal rights of ownerships were given to the women as heads of households⁸¹. This shows that gender equality aspects were taken into consideration as well.

The second element in the UNDP list is *finance*. In the contract with the civil works subcontractor, TPL established a list of demands connected to the well-being of local employees. Noremco then hired most of the employees for civil

⁸¹ Presentation by Bernhard Kvaal from TrønderEnergi at the conference "Energibistand og forretningsmuligheter i Afrika" 11.11.2010 at Håndverkeren. Permission obtained through E-mail conversations on 8.04.2011.

works from the local community and nearby vicinities (Sylvian, interview 19.04.2011). Additionally, they were provided a minimum legal wage and female staff accounted for about 11% of total local employees (Norfund 2009: 4-5). The female team was charged with “more appropriate tasks” such as administrative assistants, store keepers, data registrations, cooks for the cantina, and nurses for the on-site clinic (Sylvian, interview 19.04.2011). While these results were the most concrete practices related to income provision and employment opportunities, they cannot be analyzed as permanent benefits because many of these jobs were available only during the construction period.

The third component in the livelihood framework is the *human* element. This is concerned with the improvement of the skill base of the poor. TPL required to their sub-contractors to undergo vocational training. As a result, 10% of total employees received training certification as construction operators (Norfund 2009:4-5). I did not encounter the reasons why the amount of trained staff was so low if this aspect is of relevance for increasing trickledown effects of the project. Other courses on HSE were also held for all the staff (Salsaugen, interview 27.10.2010). Under the MoU, TPL was also committed to providing education related to HIV/AIDS and malaria. This was done through sponsoring courses arranged by CDTS.

Fourth, *natural capital* is related to better or more productive use of nature. Besides of reduction of CO² emissions, concrete activities that impacted the locals were not found. But it can be argued that the environmental mitigation measure of leaving a minimum water flow in the Mubuku river allows the local community to keep supporting livelihoods from it. Aspect of incidence for a community whose subsistence depends on agriculture and collection of available eatable plants and animals in the valley. The decision to provide resettlement compensation based on land-for-land is equally important in this matter.

Fifth, *social* aspects dedicate attention to strengthening community networks and organizations to support the people. In the BHHP, the Bugoye Participatory Committee (BPC) was a project element that contributed the most to reinforce

the capacity of the local community to organize themselves. The aim of the BPC was to liaise between the project representatives, local officials, local community leaders, and other stakeholders in monthly meetings. Female and traditional elderly community chiefs had a participatory place as well (Sylvian, interview 19.04.2011), with the organizational arrangement considering the traditional community organization. For Osborne, public-private projects commissioned with public goals can enhance the legitimacy aspect by involving directly participants from the local community rather than only democratic representatives (Osborne 2000:21).

The committee was an important channel for complains and comments from the community to the project developers. It also was permitted to set the goals for both obligatory mitigation practices and voluntary CSR contributions.

Initially, the BPC suggested several items that required a mitigation measure by the project. Mentioned aspects were selected by listening the demands of the community and by asking them about their every day routines. In addition, an executive BPC team had the responsibility to propose a list about needs common for all the villages, so that TPL could assess benefit-sharing initiatives. In this process, we experienced that the villages had difficulties to encounter common needs. Therefore, we [social consultants] starting to survey among the different interests until we could find some commonalities. (Sylvian, interview 19.04.2011)

Giving a voice to the involved stakeholders served the project's task of identifying the needs of the impacted community. Theisohn and Wignaraja (2007) had suggested that successful interventions to target the social aspects of poverty reduction help local communities to build "appropriated capacities" of problem solving and function performance. By actively involving the local communities in decision-making and goal setting, the BPC played a role in enhancing the capacities of the communities.

Poverty reduction assessed under the livelihood approach makes clear that analyzed processes and activities helped to alleviate poverty levels to some extend. Some of the impacts on poverty alleviation for the majority of local community are temporarily constrained by the duration of the construction of the

plant. Examples of this are construction employment, clinic on project site, capacity building to local representatives. Permanent impacts on poverty alleviation are given by improving the skills of the poor due to training. This element could, nevertheless, be increased in terms of quantity of trained people. Other positive aspect is the balanced gender inclusion in the livelihood's components and the intervention's provision of alternatives to use the natural capital. Long term trickledown effects of the project are yet to be seen in the local community. Would the trained employees find suitable work, will the resettlement houses be maintained, and will civil society use their abilities to organize themselves in other situations?

7.5.3 Millennium Development Goals (MDGs)

Collected data in the IFC-PS chart shows that additional and voluntary assistance of TPL to the community count as direct contributions to MDG⁸². The CSR initiatives point to assistance to realization of the goals MDG 5, MDG 6, and MDG 7. MDG 5 aims for improvements in maternal health. Maternal mortality ratio can be reduced in the Bugoye community thanks to TPL donation of the maternity ward to the local clinic. The donation also included all necessary equipments to run this section and the training to local nurses (Sylvian, interview 19.04.2011). This aspect can be accounted as significative advance for closing the rural-urban gap in skilled care during childbirth in Bugoye.

The MDG 6 targets the combat of HIV/AIDS and malaria, among others diseases. While IFC-PS demanded TPL to have HIV/AIDS health services in the clinic based for duration of the construction of the project, TPL donated funds to a local CSO to raise awareness on the disease. The project clinic offered free HIV/AIDS tests and treatment for all members of the local and surrounding communities (Sylvian, interview 19.04.2011). This intervention has a temporarily limitation because such services were not kept after the finalization of the construction project. Nevertheless, the awareness raising programs for HIV/AIDS arranged by CDTs can be accounted as an initial step in reaching

⁸² UN-MDG "Millennium goals" Retrieved 4 August 2010. <http://www.un.org/millenniumgoals/bkgd.shtml>

youth and female groups in the area. The provision of treated mosquito nets accounts as a achieving a target itself towards the prevention of this disease. In the MDG 7, environmental sustainability, the target of increasing the access of drinking water was covered by co-financing the construction of pipelines that provide drinking water in various communities of the Bugoye valley.

Contribution to ameliorate partner's countries capacity to respond effectively to MDG is a goal of the Norwegian foreign aid. And the intervention of the public-private financed company TPL contributed to some of the goals in a rural community in Uganda. It is possible to say that TPL, a private actor, was commissioned with a public task of equity provision. Yet many questions remain about the maintenance of these initiatives, such as how will the clinic run in the future?, or how will HIV/AIDS patients continue with the treatment?, or a hospital that requires permanent provision of medicines. This raises questions about the limits on the social responsibility of companies versus the responsibility of national governments to provide public goods. From a theoretical stand, how will the *competition state* guarantee sustainability of physical public goods that require special supplies and maintenance?

7.6 Understanding the Development Effects

Being said that 'development' in foreign aid is concerned with enhancing economic growth and welfare in the receiver country, this assessment concludes that equity goals of development are provided by the market-driven intervention in Bugoye realized by Norfund. The first mandate of the development is enterprise creation and, in the case of CEfD, delivery of a hydropower plant. Bringing about the hydropower plant in Bugoye through co-investing with a private actor demonstrates that Norfund fulfilled its initial mission by creating the incentives for foreign investment in Uganda. Second, regards Norfund's developmental mission, this assessments finds that the commercially driven institution has capabilities to deliver equity goals as well.

Making an analogy with the welfare state, Norfund, is committed to provide an 'equitable society' in the communities where it invests. Norfund's equity tasks in the Bugoye project has reduced the levels of insecurity and guaranteed minimum live standards of local populations. I also protect the nature. All this was achieved through risk management policies established in Norfund's sustainability guidelines. Contractual regulation of private property, job, environmental aspects were present in the intervention. The project provided in kind benefits to residents in the Bugoye district in terms of "better" quality of resettlement houses and benefits resulting from MDG programs. Consultations for social management plans gave a voice to the local communities. And poverty levels, in terms of livelihoods, were alleviated during the construction of the power plant. Further effects on poverty alleviation aspects are yet to be seen.

Norfund's working processes relate to the *equity* task of a state. Equity development effects achieved by Norfund are little understood by public stakeholders probably due to the use of a rather different terminology and methods than ones prevailing in traditional aid-related jargon. Much of the sustainable project management of Norfund is similar to typical aid program's management systems. Public-private investments, like Bugoye, in renewable energies projects are founded the technical rationale of environmental and social impact assessments (ESIA) which operate accordingly the idea of not harming the environment or the local society. In political terms, the essence of ESIA involves the intergenerational and the intergenerational elements of equity described by Goodland's discourse about sustainable development (Goodland 1998:71). In line with Bøås (2002) argument, ESIA also remove the political self-interest character of decision-making by operating under the name of a greater common good; or at least what consultants believe its is better as a hole. This technocratic operational model not only favor the rich, as it is claimed, but it opens a door for more equitable development alternatives according to the knowledge system and values of a capitalistic political economy which it supports.

As an aid institution, Norfund contributed to realize Norwegian foreign aid goals. The possibilities to increase equity benefits are, however, constrained by the donor-receiver logic of operation. Norfund, representing the donor country, could not intervene in the decisions of the Ugandan authorities to enhance welfare. An example of this is the Ugandan decision related to the energy concession which stated that electricity generated by the project had to be delivered to national grid. Another feature is the pre-existence of hydropower plants in the Muboku river, something that in the view of CSOs weakened the real possibility of environmental management routines to protect existing ecosystems. Furthermore, Norfund is not entitled to account on the financial resources paid to the Ugandan state i.e. taxes, fees; which are an important element in measuring the real outcomes of the trickledown effects of investments. Consequently, defining the limits of the responsibility of actors in market-driven aid is difficult.

8. Development, The Efficiency Task

In the previous chapter, my argument was that Norfund contributes to the realization of Norwegian foreign aid goals and that *equity* objectives of a state were achieved by a market-driven intervention in Uganda. Pre-existing assessments of Norfund's operation in the Bugoye project points that efficiency tasks are found with regards the mobilization of foreign direct investment to Uganda (chapter five). I have argued that Norfund is a market-driven institution, with many elements that indicate the avenue of operational forms of a *competition state* in Norway's international sphere. By studying whether the achieved *equity* goals in the studied intervention can be attributed to Norfund's operations, it is possible to shed light on the perceived *new* role of Norway as a *competition state* reflected in Norfund.

8.1 Norfund's Efficiency Task

The efficiency task of Norfund is determined by its mission of enterprise creation in less developed markets, and by its goal as a PFM. As a Public Finance Mechanism in the CEfD program, Norfund was encountered *catalytic*. Public and private partners contributed to build a project worth USD 60 million. By analyzing the financial structure, it is possible to say that Norfund had a direct leveraging effect⁸³ of 10:1 in this project, meaning that for every USD million contributed by Norfund, ten UDS millions were provided in total. With this Norfund fulfilled its task as a PFM.

Commercially speaking, each month the power plant produces power worth USD 1 million (Salsaugen, interview 27.10.2010). TE, the private shareholder, anticipated a 20% return on the investment. Until the first quarter of 2010, TE only received 15% on dividends; something considered by the company as low due to the high risk involved in assets (Salsaugen, interview 27.10.2010). During the third quarter of 2010, an increase in dividends had place given that the

⁸³ Ratio for leveraged capital is calculated by dividing the total invested amount divided into the public contribution amount. So, in millions USD $60,6 / 6,3 = 9,6$ (Ratio). Rations can be approximated to the closest digit. In this calculus I approximate the final 9,6 to 10.

anticipated water levels were higher than projections, thus more energy was produced. TPL expects that high production remains constant, but for the company the most important aspect is the proved real profitability of such a risky project (Værnes, interview 21.10.2010). The private investor proves its understanding of the market reality. In fact, ongoing projects show the willingness of the company to continue operating in the Ugandan settings.

The achievement of financial, economic and catalytic and additionality goals shows Norfund's intrinsic preference for market-based mechanisms to deliver the economic goals in a competition state. The task of bringing companies into foreign investments, signifies that Norfund plays the role of a commodifying actor in projects and companies for determined markets. With such a role, Norfund has influence in deciding what companies, what projects, what sectors and what countries are suitable to receive Norwegian foreign aid. Something that cannot be done without understanding the capabilities of Norwegian firms and the need's of developing countries' economies.

8.1.1 A Public Private Partnership (PPP)

The Bugoye hydropower plant is the result of cooperation between Norfund and TE through the project vehicle Trønder Power Ltd (TPL). This collaboration required capital ready to invest in a high risk market, technical known-how, and market expertise. Co-operation between a public and a private actor, in the aid sector, with the objective of realizing a common goal is defined as *partnership* (Tesner with Kell 2000, Nelson 2002) or as a public-private partnership (PPP) (Bull and McNeil 2007).

When Norfund operates, it plays the role of an investor placing demands on the invested company. Nevertheless, in the investment to build the Bugoye plant, Norfund has also contributed to take the project forward. Thus, acting as a partner represents an additional feature of Norfund in this case of study.

Bugoye is a little bit special in that we [Norfund] have both roles; one role as an investor requiring things from TE, but also as a partner helping to develop the project, assisting with all the financial sides of coordinating with other investors, and explaining

TE about how to go about various processes in Uganda. We had a mix of roles in the Bugoye and this is special. We worked much more with Bugoye than normally a DFI would do. (Vilsted, interview 18.04.2011)

This operational mode can be explained in the light of Norfund as a competition state institution that intends to take full advantage of the synergy between the public and private actors in order to deliver its mission. According to Cerny (2008), these special-purpose bodies combine traditional features of public institutions with characteristics of the private sector in order to enhance public-private cooperation. Partnership theorists have identified several forms of combining public and private resources, with the object of their study being the nature of collaboration in schemes that involves funding from a public agency to mobilize private capital to realize public objectives (Osborne 2000, Bull and McNeil 2007). What shape does this competition governance form have between Norfund and TE to deliver the above mentioned public results?

8.1.2 Getting a Partner

To start a partnership, an initial requirement should be to find a partner. The establishment of the studied partnership depended greatly on the financial structure of the investment for the project. TE did not commit itself into the project until the MfA approved the grant. This grant was presented as controversial in previous evaluations (section 6.6). In this case, Norfund cannot be held responsible for a decision made in higher levels of the government or by other institutions.

PPP and the Competition State

From the competition state theory, the MfA grant represents the willingness of the Norwegian state to facilitate the conditions that determine the competitive advantage of this strategic industrial sector. In the example of the grant, TE needed to reach an acceptable rate of financial return on their investment. If this holds true, political reasons exist to believe that the grant to the PPP Norfund-TE should have come from a different budget than the foreign aid one. Political maneuvers to support Norwegian industry were combined with Norwegian

foreign aid. If this type action continues to happen in future market-driven aid, there is risk that Norway as a donor repeats the mistakes occurred in energy aid during the 80's. Usher (2007) identified that Norwegian aid to the energy sector favored Nordic energy related industries more than to developing countries. Political debate is, then, necessary when it concerns whether or not a realistic foreign aid budget should bear the cost of adjustments of the Norwegian hydropower industry penetrating new markets. And if Norfund's partnerships are to serve industrial policy goals as well.

Instrumentalist Partnership

After financial structure was in place, TE accepted inclusion in the partnership. The terms of engagement in this PPP are purely instrumental. On one side, Norfund searched or mobilizing private capital with expertise in hydropower. On the other, TE needed to enter to a foreign market with the help of a capable partner that could contribute with market information and advice.

Selecting TrønderEnergi as a partner was a matter of good timing. We were looking for a private partner that could replace SN Power in the Bugoye project; but we wanted a Norwegian company with long experience in the hydropower sector and TE had it (Vilsted, interview 18.04.2011).

Instrumental reasons for PPP engagement had been visible in empirical research (Bull and McNeil 2007). The process of mobilization implied the identification of potential partners with capabilities and needs that permitted most synergies. By appointing a PPP, Norfund as a public institution puts in evidence an organizational manifestation of the idea to combine the added value of governmental interference with the qualities of market-oriented parties, as Klijin and Teisman (2000:84) has described partnerships.

In fact, the interest of Norfund to operate as a partner was enhanced by the incentive of Bugoye being a referential project, and the commitment of Norfund's CEO Kjell Roland to deliver concrete results.

Bugoye was so important as a reference project to show that it is possible to create these kinds of investments in a sustainable manner. Our CEO is so concerned with actually creating real results, that is why he finds ways of providing developing countries with

more electricity. He is not stuck in the traditional mindset of a CEO of a DFL. He is willing to listen to the company; to find ways of working together. (Vilsted, interview 18.04.2011)

Therefore, the participation of Norfund in Bugoye is the result of the action of a political entrepreneur engaged to discover new forms of cooperation with emerging groups of interests such as the Norwegian hydropower sector and with other government agencies for foreign aid.

8.1.3 The Structure of the Relationship

To understand a partnership, McQaid (2000) proposes to consider the flows of resources, power, and information. To build a hydropower plant with commercial finances, it is first necessary to bring the pre-feasibility assessments of the project into a bankable stage. The process of project financing was unknown for TE, thus, the company needed to learn it. One can argue that this fact situated TE in an underprivileged position *vis á vis* the public institution. Unfamiliar with project finance, the company did not have much opportunity to negotiate the clauses but to follow Norfund's 'advices'. Despite of TE unbalanced position, the firm experienced that Norfund helped them to realize the project; something of the interest of the company.

Without Norfund's many hours committed to assisting us, we would not have achieved Bugoye. (Værnes, interview 21.10.2010)

Norfund transferred expertise to TE for conducting particular processes. The company has now learned the 'Norfund's style' for bankability routines. This is of particular interest because standard application goes hand-in-hand with bankability's demands in development financing. Thus, through information sharing, Norfund has influenced the operations of the private partner. A form of 'soft power' was exercised by Norfund to influence the operational forms of TE. Soft power, defined by Joseph Nye (2004), is the ability to obtain desired aspects through attraction.

It has been so good working with TrønderEnergi because they have been so humble and always asking what they needed to learn. We [Norfund] have had projects where the private partner wanted to push the costs down; but Trønder has been so sincere on that

they wanted to build a project they were proud of. Hope that for future projects, Trønder will be more confident on what they have learn from our team on how to do business in the Ugandan settings (Vilsted, interview 18.04.2011)

The eagerness expressed by Norfund to help the company reflected the moral authority of the institution by possessing a particular expertise and by engaging the private actor in learning processes that will, ideally, be replicated in future operations. Nonetheless, it is not possible to assess whether Norfund could influence private partners which do not have much need for their 'advices', experienced and bigger partners like Statkraft in the SN Power partnership. Experience have proven that the interest of a firm in operating responsibly or not can influence the outcomes of market-driven aid.

Further, Norfund's ownership exercise involved the institution in cooperation for decision making, in technical terms, throughout the project lifecycle. In fact, Norfund's local officer in Kampala was sent with the rationale to follow-up all TPL actions related to the project implementation, specially those concerned with social and environmental risk mitigation. Decision making in infrastructure projects has proven to be challenging (Klijin and Teisman 2000) and a hydropower plant is no exception. Norfund's ESG rules demonstrated to have capacity to regulate the processes of the private actor. The environmental and social successes, described in chapter seven, are consequences of clear demands from Norfund to the private partner. The investment code used by Norfund states the obligations of the company to comply with the ESG guidelines and reporting. Whether consequences of non-compliance are difficult to exert in investments, private investors are also motivated by protecting their finances.

In this case, the synergies of the cooperation were achieved due to the open nature of interactions and transparency through the whole course of action, from planning to implementation of the project. In consequence, the practice of a horizontal *governance* approach is explained by the teamwork between the organization and the institution for decision making regarding issues that affected third parties- local communities. This form of cooperating among the partners is one of the tendencies imposed by a competition state model. Norfund have the

task of monitoring and supervising the production of public services in Uganda, as well as helping to leverage the capacity of the Norwegian national industry to operate in foreign markets.

8.2 The Role of the Company Into Aid Delivery

By attracting a firm into a PPP, Norfund engages the company in the production of public goods, basically, energy production. Moreover, in chapter six and seven it was presented that TPL contributed to enhancing the welfare of Ugandan rural population in Bugoye. Even though the company was not formally required to do, it was decided to share the benefits of the Bugoye project with the locals. In this regard, Norwegian CSOs expressed concern with the emergent role of private actors as providers of public goals in the South; in other words, as aid actors. In the case of international operations of a business group, scholarship addresses research about poverty alleviation as business strategy (Kolk and Van Tudler 2006 and Wilde-Ramsing 2009). TPL, actually, engaged in benefit sharing activities because it was natural and because the company wanted to improve their relations with their near neighboring communities. TPL contributed to the local community after public consultations were undertaken or after getting familiar with the needs of the locals. In fact, the core idea of the CSO NCA to have a triangular benefit-sharing decision was present. In the case of study, the goals of Norwegian foreign aid were enhanced by private initiatives undertaken in the Ugandan context.

From Hopkins (2007) view of CSR, presented in section 6.5, TPL's intentions were to create higher standard of livings to some of the company's stakeholders while preserving the profitability of the company. The potential of TPL in the Bugoye intervention to contribute to poverty alleviation does not rely on pure philanthropic activities but on a holistic CSR practice that also makes economic sense. In Norway, the headquarters of TE had reasons to engage in CSR due to employee retention and to continue playing its traditional role as a provider of public goods. The group's subsidiary in Uganda, TPL was mostly concerned with bottom line reputational risks. This reflected that both TPL and TE see CSR as a

corporate strategy (Fombrun and Shanley 1990) that also can fulfill the expectations of some stakeholders (Freeman 1984). In this case, a company got engaged in CSR practices because it made economic sense and because it was part of the corporate identity, as a publicly owned company. Indeed, TPL engaged into benefit sharing activities because the headquarters have traditionally commanded to operate under this model in the home country. CSR decision-making is, in the case of TPL, influenced by the pre-existing co-operational frameworks between public and private actors in Norway.

The competition state theory suggests that state-based activities increasingly turn into ‘marketized’ ones. In the case of Norwegian foreign aid, this case shows that the market delivered public goods (aid goals). As the Norfund can guide companies on how to operate ‘responsibly and socially’ aware, it does not constitute a rule *per se* because it is not a binding part of the partnership. Nevertheless, CSR actions have proven to be beneficial for achieving the goals of the political institution. Thus, this potential deserves to be explored in future partnerships undertaken by Norfund in the energy sector. Such type of aid projects has less straightforward results and benefits for local communities if electricity is delivered to national grids. Finding evidence of competitive practices in the Norwegian foreign aid, the engagement of private actors in public tasks, namely aid provision, deserves further research.

8.3 Competition State, a Double Way?

Norway, as a competition state will engage in the promotion of economic activities in order to remain relatively competitive to other states. According to *Norwegian global realism*, way to do this is arranging the delivery of public goods together with assisting competitive national industries to get international. Does this case shows evidence of Norfund acting as an export promotion actor?

I have argued that Norfund, by committing additional efforts into the Bugoye project, have contributed to the promotion of Norwegian exports. Indeed, a strong commitment of Norfund in the partnership with TE generates expectations

among other companies interested to co invest with the fund, in that Norfund will be eager to assist companies in a safe internationalization ventures to developing markets. Business as usual for DFIs is not solely invest but they usually do not assist partners. If Norfund is not sure whether they will continue playing a double role, how asserted is the hypothesis made about Norfund as a partner for exporting the Norwegian hydropower industry?

Export Promotion

From the perspective of Intpow, the successful internationalization of the Norwegian renewable energy industries is measured in terms of augment in the volume of exports and companies abroad. Certainly, a result of Norfund's investment in TPL was the creation of the first international subsidiary of TE, which can be counted as a new company abroad. This fact changed the identity of the company from a regional status to an international group. However, the volume of exports of TE was not increased. TE, instead of selling a service or Norwegian produced electricity, was investing capital into a company or project.

A second assessment question for Intpow is the quality of exports of the sector as a cluster. The aim of the business organization is to get project's owner companies to purchase supply products and services from their Norwegian counterparts. To date, there are no indications that TPL have bought the majority of their supplies from other Norwegian companies. Besides the Norwegian Multiconsult, which was awarded the contract for the design of the project, I did not find evidence of other Nordic companies involved in the procurement for Bugoye. However, it is possible to identify a trend of supplier companies partially owned by Norwegian shareholders. Newplan Uganda, for example, is 40% owned by the Norwegian Norplan AS⁸⁴. Noremco, outsourcer of civil works, is a subsidiary of the Swedish group Veidekke⁸⁵. Further research should give attention to this tendency. Is this a strategy of Nordic companies to obtain contracts in developing markets by establishing local subsidiaries? Do local content requirements of public financiers can be accounted if outsourcer

⁸⁴ Newplan. "About us" Retrieved 30 April 2011. <http://www.newplan.ug/index.php/about-us.html>

⁸⁵ Noremco. "About us" Retrieved 29 April 2011. <http://www.noremco.se/who-we-are.htm>

companies are registered in the developing country but owned by other international companies? Does this strategy signifies transfer of knowledge to the poor?

Even if the industry organization Intpow disagree that Norfund contributed to increase the exports of the Norwegian industrial sector (Hagen, interview 5.05.2011), in practical terms the assistance provided to TE in this initial endeavor was of high value. Without the help, the first internationalization experience of TE would have been longer and costly. Should other Norwegian regional companies expect the same role from Norfund? The institutional informant responded that this is still unclear.

If you want Norwegian hydropower companies to go out, I think that [companies] expect and want that role of Norfund [as investor and as a partner]. I am not sure if we are able to do that every time but there will definitively be an expectation. There is a desired to see Norwegian regional hydropower companies investing in developing countries but they should also be willing to take on the same role as TE. (Vilsted, interview 18.04.2011)

The valuable cooperation and help from Norfund to other Norwegian companies interested to export will have a price. And that price is determined by the challenge to engage in responsible corporate practices according to Norfund's ESG rules. The co operational rule is given by Norfund's terms of engagement. The Norfund's team is, hence, committed to lead efforts in assuring that investee companies are sustainable and responsible.

The Ugandan Competition State

Besides the findings about Norfund as an economic instrument of the Norwegian competition state, I also encountered two aspects for which I can support that competition state characteristics are visible in the Ugandan state. First, the electricity sector in Uganda is diversified and privatized. Privatization of the production of *common* goods, like electricity, is an aspect of competition state policies. The role of the government is actually to commission companies to produce, transmit and deliver electricity, and to regulate the operation of this sector. In fact, by organizing the energy market in an specific way, the

government acts as a commodifying actor deciding that companies can operate in one part of the value chain.

Second, the Ugandan government did not show interest for rural electrification during its negotiation with TPL for the energy concession. The reason of the government to demand TPL to deliver all electricity to national grid was because national industry requires electricity in order to growth. The Ugandan government has targeted economic growth because its effects will trickledown, thus impact the rest of the population. This rationale reflects a capitalistic model of thinking. Something that can be alleged to economic globalization which transmits the neo-liberal model. In the light of global forces, it remains an open question whether a national institution such as Norfund can have influence over global discourses or messages.

8.4 The Public Role of a Market-driven Institution – Reinventing Governance

Market-driven institutions combine business based procedures with traditional features of public institutions to achieve public goals. From analyzing the operational mode of Norfund in this intervention, I identified five tasks of Norfund as a market-driven public institution. The following practices produce and reproduce competition state forms in Norway. The identified actions are: mandating, facilitating, partnering, endorsing, and accountability.

Mandating: Norfund defines the goals of investments with its partners. It also delineates the accountability mechanisms of public financing institutions to private sector which are given by the ESG rules. Well established goals, policies and guidelines permit to increase national industry competitiveness in international markets and to persuade companies to operate responsibly for economic reasons. As a provider of foreign aid, Norfund contributes to economic growth in developing countries and at the same time it enhance the capabilities of the market to provide welfare or social benefit; something other public institutions can learn. In taking on a mandating role, governments must be

conscious about striking the right balance between economic competitiveness and environmental and social protection.

Facilitating As a commercially oriented institution, the capacity of Norfund to enforce rules is restricted. In the case of non-compliance withdrawing investments is not usually a financially wise decision given the identity of Norfund as a long term investor. In stead, Norfund prefers to enter into a dialogue with its investee company in order to improve actions. Norfund assumed the role as facilitator by a) providing knowledge and expertise about social and environmental challenges presented in the market; b) defining clear expectations about ethical and sustainable operation criteria; c) providing additional financial incentives to engage the private partner in welfare related actions. The facilitation role in the Norfund case is mostly concerned with assisting and guiding the private actor so that the overall intervention could achieve the expected public goals as well as the private ones. Public goals are related to facilitate the construction of a renewable energy plant that did not harm local nature and people. Moreover, the Norfund grant is a financial assistance aimed to influence companies' interest to engage in CSR activities, which were proven to have a high impact in the achievement of other aid goals.

Partnering General preconditions for successful partnerships are the terms of engagement and the cultural traditions of collaboration among different actors of a society. The success of the partnership between Norfund and TE is a reflection of the pre-existence of a long tradition of collaborative modes between public and private sector in Norwegian culture. On one hand, the historical tradition of the Norwegian publicly owned hydropower sector has educated companies to take part in defining socioeconomic goals and on operating under traditional *public* tasks such as consulting stakeholders, or providing some public goods such as bridges, roads, etc. In the other, Norfund is a relatively young organization and much of its operation rationale is based on contemporary trends on how efficiently co-operate with private sector. While Norfund do not have a long collaborative tradition, their expertise is inherent in the institution's identity, something that can compensate for a lack of 'experience'. Matching partners

with an overall understanding of the implications of a public-private partnership eases the realization of public and private goals and opens opportunities for considering the role of a market-driven intervention in the delivery of the equity goals.

Endorsing Norfund operates under the ESG rules which emerged from the EDFI's Rome Consensus. By attaching to such rules, Norfund, reaffirms the legitimacy and moral authority of the promoted guidelines, which represent a norm. The Rome Consensus is derivate from discussions undertaken in the European network of DFIs. This normative system has not emerged from traditional rule-making of states but attaching to an international normative set gives legitimacy to the rules. Policy networks are a concept that emerged in the core of a competition state's theoretical approach; however, it remains an open question whether or not such policy networks are politically accepted as legitimate rule-making processes. Global governance calls for a triangular model of governance where public actors, private actors and CSOs are represented; however this is not the case of the Rome Consensus. While Norfund endorses a set a rules, the mechanisms for creating them challenges the legitimacy of a triangular governance.

Accountability The type of economic partnerships in which Norfund is involved is characterized by several tasks which have different lines of command and responsibility. In addition to being a donor and facilitator, Norfund is also monitors the correct progress of an investee. Even if the rationale behind the monitoring process as an exercise of ownership, given the natural interest to secure the invested capital, permits a closer intromission for accountability on partner companies. Exercise of ownership is also done with the thought of monitoring the development effects of investments. Development in terms of a project is seen as risk management and compliance with conditionality imposed by the donor. Thus, accountability secures that minimum risk mitigation practices and compliance with ESG aspects have been carried-out by a project. In the foreign aid sector, this mechanism proves to be of utility because it allows a closer follow-up of the intended intervention. Actually what Norway is really

exporting is nation-state model which sees economic and equity objectives as complementary. This case study of Norfund demonstrates how the integration of both objectives is happening successfully in development assistance.

8.5 Concluding Remarks

Political institutions in the center of a competition state seek to lead the cooperation processes so that the partnerships can achieve the right synergies with the private sector while public goals also materialize. The experience of Norfund proves that the above-mentioned five tasks can assist public institutions in finding the appropriate balance for goal-achievement. Successful channels of public finances to private sector for development, in this case, prove that finance provision is only one task among a myriad of governance tasks that public founders conduct. With the demand for active public institutions concerned with public finances to private sector, the state is brought back into the scenario.

In the implementation of the Bugoye HPP, additional functions of Norfund have been capacity building, accountability, and standards raising. Elements that were argued to have a positive impact in the developmental mission of the fund. DFI's literature has identified that the *development assistance* role of development banking is related to the additional tasks of improving information flows, enhancing borrower capacity, and improving forecast of debt servicing (Musasike 2004). This case study has proven earlier findings true. Additionally, this public role is provide a leveled playing field, in countries that lack regulation, for companies to operate. This should establish clear operating standards and guidelines for a responsible business environment, which considers public welfare and quality of life for the various stakeholders.

9. Conclusion

Market-driven, according to Colin Leys's definition (2001), are emergent political practices that combine traditional institutional features with business oriented procedures and reasoning. In the Norwegian foreign aid, the institution Norfund operates under such a rationale by providing public finances to the private sector in order to fulfill public goals, namely development. I define *market-driven aid* as a form of giving aid that mixes public and private goals, interests, roles and operational forms. This model differ substantially from traditional aid provision by involving private (commercial) actors in public tasks, as such, it deserves to be recognized and studied. To learn more about the nature of this phenomenon, I have examined one institution in the Norwegian aid system and one particular intervention. I have analyzed the case of Norfund's intervention in the Bugoye hydropower project and whether this 'investment' had the ability to deliver development outcomes. With this case of study, I expected to enhance understanding about market-driven practices in the Norwegian foreign aid sector. In chapter four, I presented the contextual background of the emerging aid model, the Norwegian *global realist* foreign policy. In chapter five, I introduced Norfund, its goals, mandates and operational style. Chapters six was dedicated to the Bugoye hydropower project. Subsequently, chapter seven and eight evaluated the results delivered by the intervention in Bugoye. In this chapter, I will summarize my conclusions.

9.1 Market-Driven Aid Providing Development

This study defined 'development' from the foreign aid stand. It concerns with helping a developing country in achieving economic growth and welfare; missions which ultimately account for the efficiency and equity tasks of a state. From this position, the intervention of Norfund in the Bugoye hydropower plant delivered public goals. Bugoye provided Uganda with 7% additional energy from a renewable and non-polluting source. Such energy is said to be used to revitalize the Ugandan private sector development which requires electricity to prosper.

Construction of energy projects have historically been catalogued by international CSOs as dangerous for local communities and environment. However, the Bugoye hydropower plant was built with careful mitigation of environmental and social risk during the construction period. Risk mitigation had place according to Norfund guidelines for sustainable practices in the companies where the fund invests. In addition, the international company commissioned with the construction and operation of the plant, TPL, created strategies to share the economic benefits with the local community because direct benefits from the power plant were less straightforward for the locals since all electricity generated is delivered to national grid.

One Development, Several goals

To assist a partner country in ‘getting developed’, the Norwegian foreign aid policy has defined several goals that constitute important elements in achieving the final task of development provision. While the main purpose of the Bugoye hydropower was to assist Uganda to generate electricity in a clean and sustainable manner, the project also achieved additional goals of the Norwegian foreign policy i.e. contribution to MDG, gender equality, etc. With this, I attribute to Norfund the achievement of the main goal of the project –clean energy provision- because the development fund incentivized a firm to invest in Uganda. Thus, Norfund fulfilled its mission as public financing mechanism. Nevertheless, other achieved goals that impacted the Ugandan settings cannot be attributed to the direct operations of Norfund because the results account for CSR’s initiatives of TPL, something under the realm of businesses. If Trønder Power Ltd is analyzed as a PPP between Norfund and TrønderEnergi, one can say that the additional equity goals achieved in Bugoye are attributed to Norfund. From a PPP approach, the market-driven intervention delivered both efficiency and equity tasks of the Norwegian foreign aid for the benefit of Uganda.

Market-driven and Global Realist

The research question was answered above but what does a market-driven intervention signify for Norway? During the thesis, I had argued that market-driven practices and institutions have a double political role –combining

industrial policy with welfare or aid policies. The first refers to the efficiency task and the other to the equity tasks of Norway as a state. From the Norwegian position, Norfund's double mission was argued to enhance competitiveness of national industry and to deliver public goals in developing countries. Whereas Norfund's fulfilled its equity task by delivering 'development' in Uganda, I did not find evidence of Norfund directly enhancing the international competitiveness of the hydropower sector as a cluster according to the position of the interviewed business organization Intpow. If an efficiency role for the benefit of Norway can be attributed to Norfund, it should be the assistance provided to a company to start international operations like teaching TE to get a project bankable. However, this *modus operandi* also benefited Norfund's interests for advancing public goals. As a consequence, the case of study has proven to be market-driven but not fully competitive, in terms of a Norwegian competition state.

In fact, what Norway, as a nation does, is exporting its operational forms of collaborating with the private sector in order to achieve a state's efficiency and equity goals. Bugoye has established a moral setting in Uganda. TPL has proven that it is possible to build hydropower projects without harming local societies and environment. What is more, TPL has demonstrated that a commercial energy project in Ugandan settings can be profitable, to the extend that benefits can be shared with the society as a whole. With such an example, the Ugandan government and CSOs can raise the demands to future commercial investors in line with the demonstration effects delivered by TPL in Bugoye. Such an operational morality of benefit sharing and responsible operations is credited to the traditional forms of cooperating among public and private actors in Norway; which in the studied example were exported to Uganda. In the words of the Norwegian global realism, I encountered that in the example of Bugoye, Norway as a nation operated in the international arena based on the two main questions of *global realism*: is this important for Norwegian interests and if Norway can make a difference? Concretely, foreign aid public finances co-invested with Norwegian private sector can make a difference in energy related aid projects.

9.2 The Competition State Explaining Norwegian Aid

A second major objective of this thesis was to enhance the competition state theoretical approach. In line with that goal, I used a case study as methodology of research which is particularly useful for theory testing. My findings points that there are three general levels of pattern matching between the collected empirical evidence of the Norfund's case in Bugoye and the proposals of the competition state theory.

From general to particular, a Norwegian foreign policy delineated by *global realism* is subordinated to the neo-liberalist doctrine to the extend that it seeks in the long term to strengthen economic, political and human Norwegian resources. All elements are part of an all encompassing strategy necessary to remain competitive relative to other states. A neo-liberalist policy also supports and advances this role model of development in poor countries by giving aid assistance to private sector development, economic growth and other market efficiency tasks on partner countries; topics that were traditionally outside the aid agenda (until midst 90's). Indeed, the Norwegian Clean Energy for Development program offers aid under the rationale of finding markets for the structured Norwegian industrial cleantech (energy) sector. Aspect that is visible in the grant given to the Bugoye project by the Norwegian Ministry of Foreign Affairs or the export guarantee issued by Giek. PFMs actually back up private investments in risky markets; in other words, the state creates conditions for the industry to penetrate global markets. Even if I did not find evidence of this assumption in the studied case of Norfund, it does not mean that the assumption is not valid in more general contexts. Therefore, an assessment of the *nexus* between the industrial and the aid policy is required on the CEfD program.

Theoretical propositions serve to explain Norfund's main mission of enterprise creation in developing countries which is concerned with the task of addressing coordination problems that inhibit the growth of (developing countries') private sector. In the view of foreign aid, this efficiency task is innovative because traditional Norwegian aid has been mainly given for equity goals. Then, in aid

terms the question is not whether or not financing developing countries' economic growth, but under which conditions this type of aid should be given? Further, the *modus operandi* of Norfund based on contractualization, semi-legal or soft regulation and monitoring is explained by the used theory. Norfund established a partnership and operational rules under an investment contract. The ESG guidelines of Norfund are inspired in semi-legal rules for market actors to operate, to be precise investee companies. And Norfund's ownership exercise essentially monitors the production of public goods in a developing country. However, the task of Norfund –as an foreign aid institution- is constrained by the rules of aid delivery.

The Bugoye project was the result of a partnership in which my findings show that public goals depended on the nature of the collaboration among public and private actors, the nature of long-term goals as energy investments is and the type of interest of public and private actors. In my case of study, successful achievement of public goals was greatly determined by the identity of the private actor. Therefore, Norfund should be alert at selecting future partners. In the analysis of how a market-driven institution deliver public results I encountered necessary to find support in additional scholarly on partnership. The competition state theory provides a more general framework for explaining the case as a whole but it missed elements of guiding more concrete analysis. From a different perspective, the case of study did not respond to all the proposals of the competition state. I did not find evidence of an open dialogue among the public institution, the private company and Norwegian CSOs. Having no proved of a triangular governance, there is a need to make a call for open processes of rule making, standard setting and accountability. Also, the studied Norwegian CSOs need to create institutional positions about how to collaborate with the private sector, to establish clear demands and routines if Norwegian global realism is to be advanced as a competitive model or even as a relational state representation.

Theory Testing and Possibilities of Generalization

Based on the cited pattern-matches, I sustain that the competition state theory is supported. This theory actually worked to explain real life situations. In my

particular case of study I discover that competition state theory serves better studies at national levels of the state. I uncovered some weaknesses of the theoretical approach to explain in detail operational forms of competitive institutions. This limitation can be overcome by applying additional theories designed to realize analysis in lower political levels, concretely institutions operating under market-driven conditions. An example of complementary theories is the partnerships or CSR theories.

Generalization from case study research is a challenging task. In my study, I support that generalization of results have place given that the studied theory was sustained. Additionally, my assessment method allowed me to discover general positions of what constitutes a legitimate and acceptable public investment in a company to build an energy project in a developing country. I, conversely, argue that the capacity of the generalization of the case is limited to the specific settings of industrialized states with similar interests, values and characteristics. So, public equity and efficiency goals can be delivered by market-driven interventions when the relations among public-private actors function under clear semi-contractualized rules, the goals have an inherent long-term aspect and the private partner operate under ethical stands inherited from previous practices. If such aspects are in place in market-driven intervention, then, the possibilities of success are likely.

9.3 Methodological Considerations

I believe that no research is conducted without methodological challenges. During the duration of my research I experienced that some tasks were difficult and they deserve attention. First, during the initial stages of the research I defined my project under the domain of political science discipline. As the research was advancing, I realized that a single discipline was not enough for understanding the research phenomenon. Therefore, I started to see it as a research that was found support in several disciplines. Conducting a multidisciplinary research demanded great attention to discover which disciplines served my study, to identify the main discourses of each discipline and to find commonalities among

disciplines to explain my case of parts of my case. Doing all those tasks required the use of additional time because I needed to learn about new disciplines through extra readings or informal conversations with my sources.

Second, selecting a contemporary research topic, where the boundaries between the phenomenon and its context are not clear, calls for special efforts in terms of delineating limits of what constitutes the phenomenon, its elements and its context. In terms of fieldwork, I spent time to find concrete material on the phenomenon of study especially because authors define it differently. Empirically, it signifies that during my field work I did not encounter official positions about the desired type of results or the type of demands that should be imposed on Norfund. This aspect required me to expand my assessment methodology and to incorporate additional evaluation aspects. Equally important to study a contemporary phenomenon is the issue of timing and ethical use of material. Towards the last months of my study I found much relevant material but, in occasions, I was compelled to wait for official publication of documents. This aspect also impacted the time used to deliver final results. Although multidisciplinary was an important tool for my research, it is essential to consider that its time demanding; aspect that can be improved in future research projects.

9.4 Closing Remarks

In this thesis I have discussed theoretically and empirically the phenomenon of what I call *market-driven aid* in the example of public finances to private sector for public goals. The primary mission of Norfund, as a market-driven institution, is to enterprise creation in developing countries with public finances to firms. With this task, the institution has to facilitate the provision of capital in difficult context but that will help to improve living conditions of the poor. The role of companies is very different. To evaluate the outcomes of market-driven intervention, I have distinguished between the immediate outcomes of the intervention, the operational forms that produced the effects and the meaning of such results and processes for an emerging model as market-driven aid which gains popularity. The immediate results of the intervention showed that it is

possible to deliver public and private goals. In fact, when both type of goals overlap the possibilities to increase public goals are bigger. The governance system used to manage public-private relations is determined by the existence of clear operational rules, the nature of long-term goals and the identity of involved actors. Advancing market-driven aid practices has a potential to engage private finances in public tasks and with this bringing additional private finances to aid delivery while companies have a partner for doing business in difficult settings of developing countries. However this strategy does not guarantee the delivery of public goals *per se* but it is conditioned to the relations, capabilities and identity of the involved parties.

Annexes

Annex 1: News Coverage of the Bugoye Hydropower Plant

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Annex 2: IFC's Development Outcome Tracking System (DOTS)

The International Finance Corporation, the World Bank's private arm, has a Development Outcome Tracking System (IFC-DOTS) that permits a more comprehensive assessment of project's contribution to development (IFC b). The IFC DOTS organizes 'development outcomes' of an investment into four areas that are supposed to cover projects many-sided contributions to developing countries. The four performance areas are financial performance, economic performance, environmental and social performance (ESP), and private sector development (PSD) (IFC a).

Outcome 1- Financial performance aims at assessing the costs and benefits to project financiers because meeting the cost of capital is a necessary requirement for a healthy and sustainable development of private sector.

Outcome 2- Economic performance seeks to assess the project's impact on all of society i.e. characteristics of new products or services in the market and how they benefit main stakeholders like customers, employees, governments and suppliers.

Outcome 3- It looks at a project's contribution beyond the implementing company. Indeed, contributions to the national private sector development like changes in regulatory frameworks. Competitors, producers of complementary products and new entrants are some of the analyzed indicators.

Outcome 4- Environmental & social performance is concerned with assessing a project's effects (benefits or hazards) on neighboring communities and the environment. This is done based on compiling with IFC's Environmental and Social Impact Assessments, which provide information about which risks should be managed in order to improve existing conditions, or to avoid or mitigate eventual harms.

Annex 3: The Five Assets of the Livelihood Framework

A *Livelihood* refers to the means of living of people and it comprises capabilities, assets, and activities required to obtain such means. A livelihood contains five essential asset components: natural, physical, human, financial, and social capitals (Chambers and Conway 1992:7, Scoones 1998).

Physical capital is related to infrastructure improvements.

Financial capital is connected to programs or activities that focus on the provision of different types of finance or income.

Human capital refers to the activities that improve the skills base of the poor, such as education or training.

Natural capital is the natural environment and resources which surrounding communities are endowed to make use of it to sustain themselves.

Social capital refers to the networks and organizations that support people.

Source: Chambers and Conway 1992

Annex 4: List of Attended Public Arrangements During My Fieldwork

31. May 2011 – “Investing in private sector development: What are the returns?” at Litteraturhuset, Oslo (Norway).

23. May 2011 – “The sustainability challenge to business and society” at Old Ceremonial Hall University of Oslo, Oslo.

19. May 2011 - “Changing aid: Towards a new model for development assistance” at Håndverkeren, Oslo (Norway).

3. May 2011 - “Changing aid: Chinese Investments

12. April 2011 - “Changing aid: Thinking strategically about Norway’s donor role” at Håndverkeren, Oslo (Norway).

8. April 2011 – “The World bank and Human Development with focus on Africa” – at NORAD, Oslo (Norway).

29. March 2011 – ”Changing aid: Towards a new consensus in aid policy?” at Håndverkeren, Oslo (Norway).

22. March 2011 – “Changing Aid: Does strong African growth spell an end to aid as we know it?” at Håndverkeren, Oslo (Norway).

26. January 2011 – ”Local impacts of big projects: the role of strategic community investment and local capacity building” at NORAD, Oslo (Norway)

21-22. January – “ Exploring sustainability” at Losby gård, (Norway)

9. December 2011 – ”Social reporting: why and how?” at BI, Oslo (Norway)

17. November 2010 – ”Utenrikspolitikk i forandringenes tid” at Litteraturhuset, Oslo (Norway)

11. November 2010 – ”Energibistand og forretningsmuligheter i Afrika” at Håndverkeren, Oslo (Norway)

8. November 2010 – ”Green economy, why should developing countries embrace it?” – at Felix conference center at Oslo (Norway)

27. October 2010 – ”Energidagen” at University NTNU, Trondheim (Norway)

18 October 2010. ”Africa Economic Development”. Ulandseminaret at Blindern, Oslo (Norway)

22 September 2010. Conference ”Promoting Clean energy: what role for the Norwegian Pension Fund”. Organized by Leve, Etikk Programmet, Finansfondet and Polytekniskforeningen at Litteraturhuset, Oslo (Norway).

19. September 2010 – ”Politics and Aid” at NORAD, Oslo.

10 February 2010- Africa – A continent of opportunities? Conference for Supporting Businesses (Næringslivets Bistandskonferanse) Arranged by NHO, Innovasjon Norge, NORAD and UNDP at NHO Conference Center, Oslo (Norway)

Annex 5: Conducted Interviews

Archer, Eivind: Special Adviser at Norwegian Church Aid (NCA). Oslo, 21 April 2011.

Damman, Siri: International Policy Adviser at Regnskogfondet Norway. Oslo, 4 May 2011.

Davis, Mark: Head of Department Renewable Energy at Norfund. Oslo, 18 April 2011.

Frengstad Tsujimoto, Maria: Grant Facility Manager and Development Advisor at Norfund. Oslo, 15 April 2011.

Hagen, Line Amlund: Regional Director of Intpow. Oslo, 5 May 2011.

Norris, Stefan: Energy Adviser at World Wide Fund for the Nature (WWF). Oslo, 12 May 2011.

Preston, Andrew: General Manager at Foretningen for Internasjonale Vannstudier (FIVAS). Oslo 4 November 2011.

Pritchard, Stephen: Manager at CDTs Uganda. Telephonic conversation, 7 April 2011.

Rixen, Jan: General Manager at EDFI. Interview through E-mail. Answers received on 13 January 2011.

Salsaugen, Gunnar: General Manager at Trønder Power Ltd. Trondheim, 27 October 2010.

Sylvian, Irene: Social and Environmental Adviser at Newplan Uganda. Oslo, 19 April 2011.

Søreide, Anders: Consultant and Manager at Vattenfal Power Consultant Norway. Oslo, 5 May 2011.

Vilsted, Petter: Sustainability Adviser ESG at Norfund. Oslo, 18 April 2011.

Værnes, Jon Einar: Vice President International at TrønderEnergi. Oslo, 21 October 2010.

Annex 6: Norwegian Policy papers

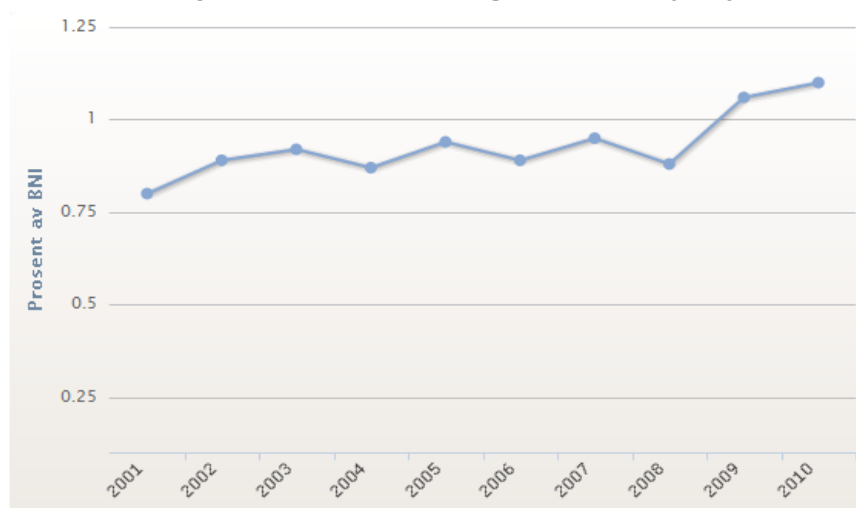
Concrete examples of policy process to adapt national foreign aid policies in globalized settings can be studied in:

- Globalization (Report No. 19 to the Storting 2002-2003)
- Fighting Poverty Together (Report No. 35 to the Storting 2003-2004)
- Norwegian Public Study -NOU 2008:14 —Coherent for Development?
- Interest, Responsibilities and Opportunities (Report No. 15 to the Storting 2008-2009)
- Climate, Conflict and Capital (Report No. 130 to the Storting 2008-2009)
- Corporate Social Responsibility for a Global Economy (Report No. 19 to the Storting 2008-2009)
- (Report No. 23 to the Storting 1961-1962)

Annex 7: Norwegian Budget –Recent Years

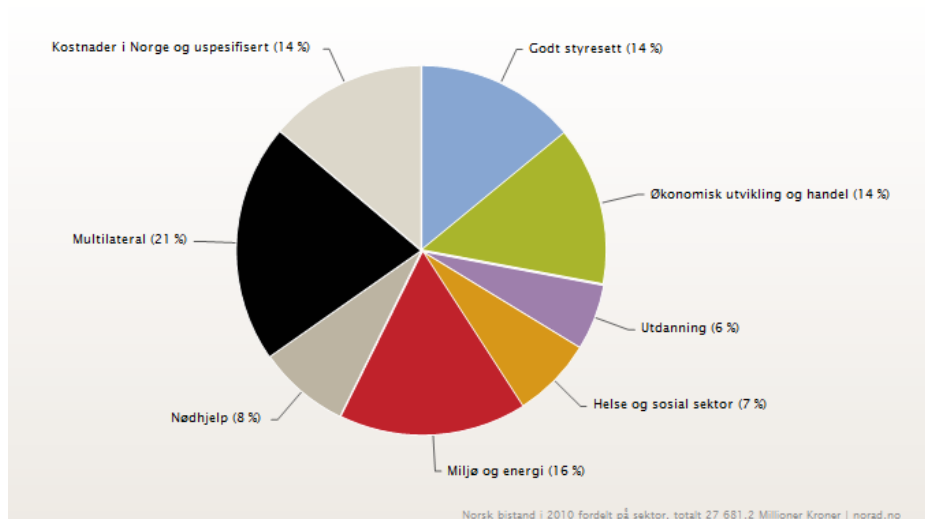
Figur 1: Norwegian Foreign Aid as Percentage of National GDP 2001 - 2010

Bistand som prosent av bruttonasjonalinntekt (BNI), 2001-2010



Source: NORAD "Norsk bistanditall". Retrieved 5 January 2011. <http://www.NORAD.no/norskbanditall/>

Figur 2: Norwegian Aid distributed by Sector



Source: NORAD. "Norsk bistand i tall – Statistiskvisning". Retrieved 22 February 2011. <http://www.NORAD.no/Norskbanditall/Statistikkvisning>

Commentaries⁸⁶

Aid Budget for 2010 corresponded to 1,09% of Norwegian GDP.

NOK 4 529, 1 millions were given to the sector Environment and Energy. This accounted for 16% of the total aid budget.

Norwegian Aid Budget in 2011.

To the date of the publication of this thesis the Norwegian National Budget presented the following information:

Aid Budget in 2011 corresponds to 1,02% of Norwegian GNP.

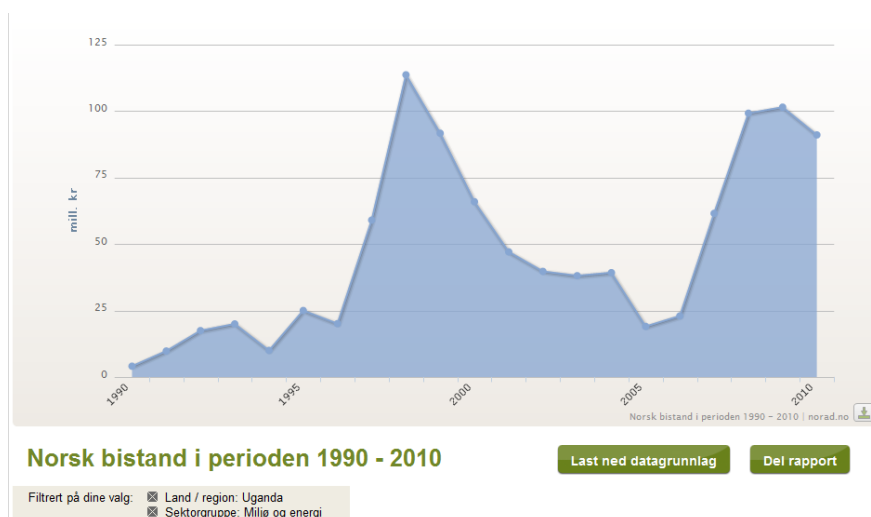
In 2011 the budget for Clean Energy for Development Program will be doubled from NOK 800 millions to NOK 1,6 billions. From the increase, NOK 425 millions will be directly used for Public Financial Mechanisms through Norfund. This allocation to Norfund comes in addition to normal allocations to the development fund.

⁸⁶ Norwegian Department of Finances. "National Budget 2010". Own translation. Retrieved 5 October 2010. <http://www.statsbudsjettet.no/Statsbudsjettet-2010/Dokumenter/Fagdepartementenes-proposisjoner/Utenriksdepartementet-UD/Prop-1-S/36140/36147/>

Norwegian Department of Finances. National Budget National Budget 2011. Own translation. Retrieved 3 May 2011. <http://www.statsbudsjettet.no/Statsbudsjettet-2011/Dokumenter/Fagdepartementenes-proposisjoner/Utenriksdepartementet-UD/Prop-1-S/48306/48313/>

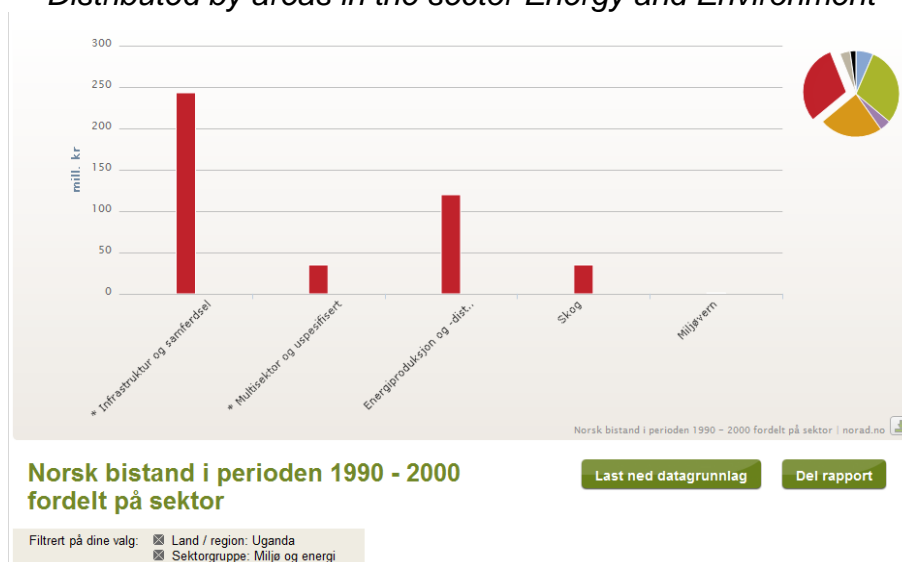
Annex 8: Norwegian Expenditure on Bilateral Aid to Uganda.

Figure 3: Historical development of Norwegian Aid to Uganda in the sector: Energy and Environment between 1990-2010



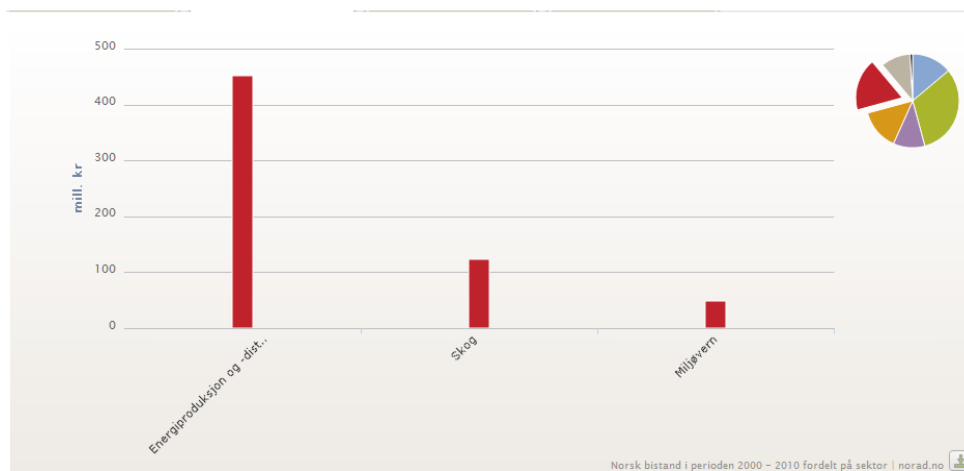
Source: NORAD. "Norsk bistand i tall – Statistikkvisning". Retrieved 22 February 2011.
<http://www.NORAD.no/Norskbestanditall/Statistikkvisning>

Figure 4: Norwegian Aid to Uganda between 1990-2000. Distributed by areas in the sector Energy and Environment



Source: NORAD. "Norsk bistand i tall – Statistikkvisning". Retrieved 22 February 2011.
<http://www.NORAD.no/Norskbestanditall/Statistikkvisning>

Figure 5: Norwegian Aid to Uganda between 2000-2010. Distributed by areas in the sector Energy and Environment



Norsk bistand i perioden 2000 - 2010 fordelt på sektor

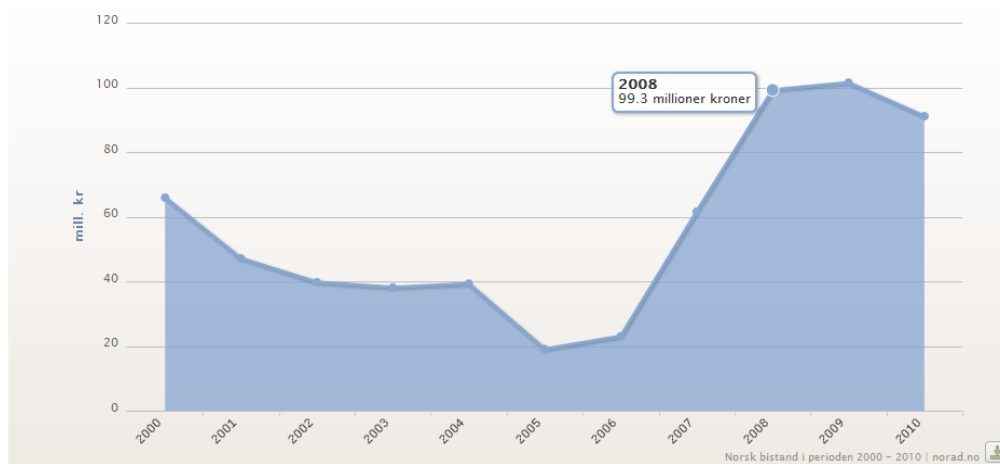
Last ned datagrunnlag

Del rapport

Filtrert på dine valg: ☒ Land / region: Uganda
☒ Sektorgruppe: Miljø og energi

Source: NORAD. "Norsk bistand i tall – Statistikkvisning". Retrieved 22 February 2011.
<http://www.NORAD.no/Norskbistanditall/Statistikkvisning>

Figure 6: Historical development of Norwegian Aid to Uganda in the sector: Energy and Environment between 2000-2010



Norsk bistand i perioden 2000 - 2010

Last ned datagrunnlag

Del rapport

Filtrert på dine valg: ☒ Land / region: Uganda
☒ Sektorgruppe: Miljø og energi

Source: NORAD. "Norsk bistand i tall – Statistikkvisning". Retrieved 22 February 2011.
<http://www.NORAD.no/Norskbistanditall/Statistikkvisning>

Annex 9: Detailed Bankability Process for the Bugoye Hydropower Project.

There are different methods to finance infrastructure projects. One of them is *non-recourse project financing*. This system entails that an infrastructure project itself can provide full security to lenders. Success of project financing relies on putting in place a structure that assures commercial viability and the reduction of project related risks (Davis, interview 18.04.2011). Project financing is required in all commercial financial activities in order to document the bankability of the project. It is the ability of a project to pay the loan back, in the case of energy infrastructure, from earnings made by selling the electricity generated. Bankability is usually achieved through obtaining various legal contracts from eventual buyers of the electricity and guarantees from project suppliers of parts and services. In the case of a hydropower project commercial, construction, and hydrological risk mitigation had to be documented.

For reducing commercial risks, the project acquired a contract called Power Purchased Agreement (PPA) from the Uganda Electricity Transmission Company Ltd (UETCL). With such an agreement, the Ugandan part is committed to buy the electricity produced by Bugoye HPP at a tariff of 12,9 USD cents/kilowatt hour (c/KWh) during the first three years and 7,2 c/KWh thereafter (NORAD 2010b:33). The PPA also guarantees payments for “deemed energy” if the plant is prevented from delivering power to the grid (Information provided by TPL). This last element is particularly important in countries where the electricity grid is weak, because producers can face the risks of discontinuing their production. In the case of hydropower, water –raw material- cannot be stored therefore it would have to be let flow. Thus, causing non-production losses to the plant.

Furthermore, UETCL was said to be in bankrupt therefore this risks had to be managed as well. This was achieved through a guarantee provided by the Ugandan government. It normally do not offer guarantees for small scale

hydropower projects, but in the light of an energy crisis the government was invited to negotiate (Davis, interview 18.04.2011). The support contract negotiated included a 'buy-out' clause in case of non-payment on the part of UETCL and established that the Ugandan government would receive 60% of certified emissions right's income (Document courtesy TPL). By those means, permanent income from the project was secured by guaranteeing sales of the power.

When it comes to mitigating construction risk, the developer had to come with a creative solution. In Norway, it is usual to undertake an overall contract for all necessary services with one outsourcing company. This is called Engineering, Procurement and Construction (EPC) contract (Søreide, interview 5.05.2011). However, this was not possible to achieve in the BHPP. The initial EPC contract negotiated by SN Power was too expensive in the view of TPL. Such difficulty to close an EPC agreement resulted in a split contract basis. Four types of outsourced services were contracted: civil works, electro-mechanical, control & switchyard, and transmission line (Salsaugen, interview 27.10.2010). Without this structure, the project would not have been possible. Split contracts in this type of investment required the project and the lenders to assume more risk than is usual. Despite of an increased risk, the lenders were decided to support the project. A possible explanation to this can be given in the light of the nature of lenders concerned with development finances.

In the side of hydrological risks, it is possible to say that they remain an open question that in countries like Norway are assessed due to the existence of public statistics. Normally one of the difficulties that developers met in Africa is the inexistence of such records, making difficult to estimate the production according to hydrological seasons (Søreide, interview 5.05.2011). Given the context of Uganda, the BHPP is in an advantaged position due to the existence of hydrological records of the rivers where the plant is supplied from. Existing hydropower plants, both, upstream and downstream, have kept track of hydrological records since they started production in 2009. By using this

hydrological information, reliable production estimates could be done for BHPP. For financial support, the developer provided a guarantee capped at around 10% of the loan to cover failure to pay in case of poor hydrology (Information from TPL).

Annex 10: Data Collected from Norwegian CSOs

Topic / CSO	WWF, Norway. Stefan Norris, Energy Adviser	Regskogfondet. Siri Damnman, International Policy Adviser	FIVAS. Andrew Preston, General Manager	NCA. Eivind Archer, Special Adviser
Clean Energy Aid. Market-driven aid	<p>We welcome all sources of clean energy. Even if clean energy projects have natural and social risks, we see that those risks are manageable compared with the dangers caused by fossil fuels energy production.</p> <p>We agree that it is important to get private sector included if the goal is to promote more environmental friendly energy offer. But , there should not be a secret agenda where aid agencies says that the clean energy initiative is a development program when it really is a way to obtain contracts for the Norwegian companies – if this is the case, it would be unfortunate.</p>	<p>Clean energy for development is an interesting aid model that allows contributing to development from the South's premises.</p>	<p>Welcome the Clean Energy Initiative but we expect to see a Norwegian effort towards supporting energy sources that are the best solution according to the different settings. We hope that there is not single attention to capacity of production only from hydropower source. We wish at all Norwegian actors are committed to used high level standards in hydropower projects in developing countries. But, if there is aid money in the context then it is more important that public aid institutions that provide the finances are held responsible for ensuring the quality of standards application in such projects.</p>	<p>We are positive to energy-related investments because there is a big need in developing countries for energy, something that contributes to poverty reduction and private sector development.</p>

<p>Local populations - <i>Social aspects</i></p>		<p>Social studies have identified that the concept of desired development depend on the type of society. Diverse types of community groups will have different reactions and expectations to an infrastructure project. Companies should consult local communities and do not try to impose development according to our “western” conception of a capitalist society.</p> <p>Each particular situation should be treated according to the various local realities and according to the desired “concept of development” of the social groups existent in an intervened area.</p>		<p>NCA is concerned with the rights of indigenous people. Indigenous peoples is difficult to conceptualize, this creates a difficult situation. First, it is difficult to recognize the existence of indigenous people; and second, to identify them juridical. Generally speaking, indigenous populations or ethnic minorities are people that live in a traditional manner and usually have their own language and social structure. African tribes can be considered one example of this.</p> <p>Normally, states should be held accountable for indigenous people’s rights but when the state has not done its job, companies cannot be held responsible for that. It is difficult to say who is responsible in cases of negligence of the states. However, it is necessary that companies improve their operational routines so that indigenous rights are taken into consideration.</p>
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Project Management	<p>Project proposals should include the right cost-calculations that provide the companies with the most economic gains but such calculations should include the costs of applying the highest possible standard. We push for public financing institutions that can raise the level of standards as much as possible, and that they follow a life cycle perspective of the projects.</p>	<p>The industry is not so good at analyzing the environmental and social consequences. This is something very important because in many developing countries there are pre-existing conflicts between the society and the state; this is something that can be reflected and affect negatively projects.</p> <p>From our experience with infrastructure projects, we have seen many cases where companies were not really prepared to meet conflicts in developing countries. The question is not about good or bad intentions, but a more realist concern is that companies are really prepared and are well informed about the markets and societies where they will invest.</p>	<p>We in Fivas are concerned with holistic planning process for single projects. We want that the project is considered equally towards financial, social and economical considerations.</p> <p>Normally, technical and economic plans predominate the project assessments; and the social and environmental respects are relegated to a secondary aspect. We are for integrating Social and Environmental aspects of project assessments and planning from early stages.</p>	<p>A project with a good design that considers the affected groups. This can be achieved through good planning and inclusive processes and compromise. Public founders should clarify that the company is legally entitle and responsible to secure that their subcontractors follow international conventions and guidelines.</p>
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Standard set that should be applied	<p>WWF do not seek to promote an specific set of standards but we wish to raise the quality of any type of standards used by projects. Therefore, we want to have the an open door in case by case, to comment on projects and to adjust the criterions and recommendations according to each country situation.</p>	<p>IFC Standards has gaps for states that do not do their work. This creates conflicts and questions about the compensation levels, lack of trust of society on their authorities. To avoid such difficulties, we support a WCD because of the “Free-prior-inform-consent” where project developers contact the respective stakeholders in order to come into an agreement whether the project will be realized and under what kind of terms a project could take place.</p>	<p>Fivas argues that WCD is the best existing guideline for manage hydropower infrastructure building in developing countries because of two reasons. The first is because the recommendations of the WCD are the results of a two years stakeholder consultations, analysis of research results, and case studies. The standards have a higher legitimacy than other standards because all kind of interested groups that were related to hydropower projects in the last 50 years were consulted. The second is that standards are free-will, but there are not binding criterion. WCD recommendation proposed binding criterion like agreements with local communities, and the HHRR approach is stronger and clear about the positions of rights and risks approaches.</p>	<p>We support the WCD because it is the standard that deals with questions related to the rights of indigenous populations. We perceive a general tendency where the international hydropower sector slips away from this recommendations on the WCD. Probably because the guidelines suggests quite long processes to incorporate social participation in project planning.</p>
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Private sector as aid actor - CSR		<p>It is problematic that private enterprises would profile themselves as aid actors. Such behavior generates expectations; however, they do not have the expertise about development assistance.</p>	<p>Focus on benefit sharing is essential but taxes that go to components to local development are desired. Such contributions by no means should replace the company obligations with affected communities and the environment.</p>	<p>The concept of benefit sharing is rather problematic. NCA basic position is that the state is responsible for delivering public goods to their citizens. Therefore, it is unnatural that private companies have this responsibility. It is not a good solution that companies use private money to operate as aid actors. But if companies want to contribute with something, there should be a component of democratic control where three parties: local representatives, an international organization and a representative of the company follow the transparency of a benefit sharing process.</p>
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Annex 11: IFC Development Outcome Tracking System for Bugoye

(N.A: Information not available)

Financial Performance	Economic Performance	Environmental & Social Performance	Private Sector Development
Project Company Financiers N. A	Customers - New service: Electricity to national Ugandan grid. - Quality of service: N.A Expected Price A lower price was expected. The PPA agreement was evaluated as non cost-effective if compared with other small-hydropower development in the area. But the price of 12,9 -7,2 c/kWh is cheap compared to other type of energy production i.e. thermal power.	Implementation of Standards IFC's Env & Social Mgmt: Yes IFC performance standards from 1-8, except PS 7 since indigenous communities were not involved. - ISO 14 000: Yes - National standards: Yes Norwegian NVE Guidelines Ugandan national rules and procedures. - International HSE Policies: Yes, IFC HSE. - Management of risks: Yes	Corporate governance N. A
Financial Rate of Return N.A	Government of Uganda - Tax revenue: N.A Taxes were paid for registrering company, import tax, consession, employment taxes. Additional: 60% of earnings from the CERs will be given to the government.	Neighbors No direct benefits from the BHPP were encountered to benefit the community given that the power plant delivers all the electricity production to the national grid. However, local employees were hired during the construction process and additional programs	Linkages, knowledge transfer Training Ugandan local team for running the power plant.

<p>Return on Equity N.A</p>	<p>Suppliers - Securing demand of their products and services:</p> <p>Newplan (Ugandan) Noremco (Ugandan) Group 4 Securicor (International)</p> <p>- Local vs. Imported: Turbines – Belgium Stone- crushing (local)</p>	<p>Environmental aspects Environment a) Hydropower design: Run of the river design with a component that ensures sufficient year-round water flow in the river.</p> <p>Biodiversity conservation Studies reported that habitats have been modified by previous human use. Fish migration is prevented from other hydropower plants placed upstream. Therefore, BHPP was not encountered as cause of losses of biodiversity.</p> <p>Reduction in emissions GHG emissions: 54 349 tones CO2.</p>	<p>Demonstration effects: Trønder Power as a new entrant in the market. This can be considered materially important because of the observed success. Given a positive experience, Trønder Power is planning other 5 hydropower projects.</p> <p>Morality setting - for benefit sharing of projects</p>
<p>Return on Invested Capital</p> <p>TrønderEnergi expected 20% return on invested capital.</p> <p>From 2009 to 2nd quarter of 2010: return of 15-17%.</p>	<p>Employees <i>No. of places:</i> Approx. 425 local employees were hired during the construction phase.</p> <p>75% local employees: Bugoye area.</p> <p>11% female employees</p> <p>18 permanent employees in TPL.</p> <p><i>Wages:</i> National legal wages</p> <p><i>Training:</i> All local workers received vocational training and education in health, safety and environment (HSE).</p>	<p>Community Development Program</p> <p>Community engagement: Bugoye Participatory Committee. The local community identified issues that could be difficult and all of them were managed and monitored. Issues: a) the use of land; b) access to water; c) movement across project site; d) traffic, noise and dust.</p> <p>Involuntary resettlement a) It was negotiated a land-for-land compensation and offered additional assistance with registration of land title. b) 34 households were resettled close to main infrastructure and/or relatives. c) According to IFC representative visit the restituted houses were substantially bigger and of better quality.</p>	<p>Investment climate Changes in Ugandan settings cannot be assessed by this study.</p> <p>Norwegian companies are learning from the experiences of TrønderEnergi in a developing country. The case of Bugoye is used in conferences for promoting the internationalization of the Norwegian hydropower sector.</p>

		<p>Protection of rights of vulnerable groups</p> <p>a) Participation, consultation.</p> <p>b) Land titles, property rights: Women were considered as the head of the family since tribal traditions permit that man can have several wives.</p> <p>c) Compensations: 372 families received one time compensation payments for land and crops.</p> <p>Cultural heritage Reallocation of graves took place and some payments were done to cover the expenses of “moving funerals”.</p>	
		<p>Voluntary contributions to the Community –CSR Initiatives– –Direct contributions to MDG– MDG 5: Construction of a maternity ward in local clinic. MDG 6: Provision of funding for a HIV/AIDS awareness program. MDG 7: Construction 10 of water access-points. Support to an EU/UN potable water supply project.</p> <p>Improve the local clinic and provision of an out patient department. Provide access to electricity in the clinic for storing medicaments. Malaria prevention program and donation of mosquito nets.</p> <p>- Other important contributions- Donation of a football ground and support to a local NGO: Community Development Trough Sports.</p>	<p>Changes in legal and regulatory framework Ugandan legal and regulatory framework remained the same.</p>

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